MANAGEMENT'S DISCUSSION AND ANALYSIS

March 8, 2010

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial position and cash flows of Newport Partners Income Fund (the "Fund") for the years ended December 31, 2009 and 2008. This MD&A should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the notes thereto.

All amounts in this MD&A are in Canadian dollars. The accompanying audited consolidated financial statements of the Fund have been prepared by and are the responsibility of management. The contents of this MD&A have been approved by the Board of Trustees of the Fund, on the recommendation of its Audit Committee. This MD&A is dated March 8, 2010 and is current to that date unless otherwise indicated.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A makes reference to certain Non-GAAP Measures and contains Forward-Looking Information. Non-GAAP Measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See Non-GAAP Measures and Forward-Looking Information.

Capitalized terms are defined terms, their meaning is explained in the "Definitions" section located on page 55, and references to "we", "us", "our" or similar terms, refer to Newport Partners Income Fund, unless the context otherwise requires.

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Forward-Looking Information

This MD&A contains certain forward-looking information. Certain information included in this MD&A may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results and may include statements or information regarding the future plans or prospects of the Fund or the Operating Partnerships and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Fund and the Operating Partnerships. Without limitation, information regarding the future operating results and economic performance of the Fund and the Operating Partnerships constitute forward-looking information. Such forward-looking information reflects management's current beliefs and is based on information currently available to management of the Fund and the Operating Partnerships. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including risks related to investments, conditions of capital markets, economic conditions, taxation of income trusts, dependence on key personnel, limited customer bases, interest rates, regulatory change, compliance with the terms of the Amended Forbearance Agreement with the senior lenders, ability to meet working capital requirements and capital expenditures needs of the Operating Partners, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. In addition, in evaluating this information, investors should specifically consider various factors, including the risks outlined under "Risk Factors", which may cause actual events or results to differ materially from any forward-looking statement. In formulating forward-looking information herein, management has assumed that business and economic conditions affecting the Fund and the Operating Partnerships will continue substantially in the ordinary course, including without limitation with respect to general levels of economic activity, regulations, taxes and interest rates. Although the forward-looking information is based on what management of the Fund and the Operating Partnerships consider to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect. This forward-looking information is made as of the date of this MD&A, and the Fund does not assume any obligation to update or revise it to reflect new events or circumstances except as required by law. Undue reliance should not be placed on forward-looking information. The Fund is providing the forward-looking financial information set out in this MD&A for the purpose of providing investors with some context for the "2010 Outlook" presented. Readers are cautioned that this information may not be appropriate for any other purpose.

Non-GAAP Measures

The terms "adjusted EBITDA", "LTM cash yield from the portfolio", ''distributable cash'', ''EBITDA'', ''invested capital'', (collectively the ''Non-GAAP Measures'') are financial measures used in this MD&A that are not standard measures under Canadian generally accepted accounting principles (''GAAP''). NPF's method of calculating Non-GAAP Measures may differ from the methods used by other issuers. Therefore, NPF's Non-GAAP Measures, as presented may not be comparable to similar measures presented by other issuers.

Adjusted EBITDA refers to EBITDA excluding the gain or loss on reduction of ownership interest (dilution gains or losses), the write-down of goodwill and intangibles and the impairment of long-term investments. The Fund has used Adjusted EBITDA as the basis for the analysis of its past operating financial performance. Adjusted EBITDA is used by the Fund and management believes it is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. Adjusted EBITDA is a measure that management believes facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors.

LTM Cash yield from the portfolio refers to the Fund's cash on cash return for the last 12 months from an Operating Partnership based on free cash flow paid to the Fund as a percentage of weighted invested capital. Management believes that overall yield is a useful supplemental measure for investors to assess the quality of the investments in the Fund's portfolio and management's ability to invest in successful businesses at reasonable prices. Management uses this measure to monitor the performance of its investment strategy.

Distributable cash is not a standard measure under GAAP and is generally used by Canadian income funds as an indicator of financial performance. The Fund's method of calculating distributable cash may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities. The Fund suspended distributions paid to its unitholders in October 2008. Under the Amended Forbearance Agreement, the Fund is prohibited from making distributions to unitholders and the Fund is retaining cash to meet working capital requirements, capital expenditures needs of the Operating Partners and to repay debt. Management believes it is, therefore, a useful financial measure as an indication of the Fund's ability to generate cash and use such cash to repay debt and fund operations. Distributable cash generated by an Operating Partnership is also used by management in the calculation of yield which it uses to monitor the performance of the Fund's Operating Partnerships.

EBITDA refers to net earnings determined in accordance with GAAP, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and the Trustees as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDA to monitor the performance of the Fund's reportable segments and believes that in addition to net income or loss and cash provided by operating activities, EBITDA is a useful supplemental measure from which to determine the Fund's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and distributions. The Fund has provided a reconciliation of income to EBITDA in its MD&A.

Invested capital refers to the cost to acquire an equity interest in an Operating Partnership and excludes transaction costs and any working capital provided to such Operating Partnership. Management uses this measure to monitor the performance of its investment strategy and as an input to the calculation of its targeted overall yield for an Operating Partnership. Management believes that invested capital is a useful supplemental measure that provides investors with useful information about the capital that the Fund deploys for each Operating Partnership which can subsequently be used to determine the performance of each Operating Partnership.

Investors are cautioned that the Non-GAAP Measures are not alternatives to measures under GAAP and should not, on their own, be construed as an indicator of performance or cash flows, a measure of liquidity or as a measure of actual return on the Units. These Non-GAAP Measures should only be used in conjunction with the financial statements included in the MD&A and the Fund's annual audited financial statements available on SEDAR at www.sedar.com or at www.newportpartnersincomefund.ca.

VISION, CORE BUSINESS AND STRATEGY

VISION AND CORE BUSINESS

Investing in private businesses has the potential to deliver superior returns. However, the considerable challenges of finding and financing private investments prevent many investors from participating. These businesses are generally hard to access as standalone investments, have few external shareholders, require large minimum investment amounts and are generally illiquid. It is also time-consuming and costly to conduct proper due diligence.

The Fund was set up to provide investors with a simple 'turnkey' way to participate in the profits and growth of successful Canadian private businesses through a professionally managed, well-diversified and publicly-traded portfolio.

STRATEGY

The Fund's business and investment strategy is based on:

- Addressing and solving the Fund's balance sheet issues including reducing debt levels and restructuring convertible debentures.
- Stabilizing the Fund and providing operational support to facilitate the growth and performance of the businesses.
- Investing in well established businesses with leading or niche positions in their respective industries, histories of profitability, growth plans and talented management teams.
- Providing capital and strategic financial advice to the businesses.
- Investing for long-term returns.

KEY OBJECTIVES, KEY PERFORMANCE INDICATORS AND FINANCIAL HIGHLIGHTS

KEY OBJECTIVES

- Stabilize the Fund's balance sheet and long term capital structure by reducing senior debt and restructuring existing convertible debt.
- Focus on reducing operating costs and streamlining operations at investee businesses.
- Strengthen the leadership at investee businesses by providing hands-on operational support and, over time, adding seasoned industry leaders to boards.

KEY PERFORMANCE INDICATORS AND FINANCIAL HIGHLIGHTS

Some of the Fund's key performance indicators and financial highlights as at December 31, 2009, are set out below:

KEY PERFORMANCE INDICATORS	YEAR ENDED DECEMBER 31		
	2009	2008	2007
Adjusted EBITDA from continuing operations	$ 43,704	$ 66,010	$ 70,704
Distributable cash from continuing operations[1]	$ (952)	$ 26,009	$ 39,519

KEY FINANCIAL HIGHLIGHTS	AS AT DECEMBER 31		
	2009	2008	2007
Total assets	$ 479,324	$ 619,042	$ 949,236
Revolving credit facilities	$ 10,089	$ 27,400	$ 47,527
Senior long-term debt	$ 150,499	$ 210,000	$ 210,000
Convertible debt	$ 156,136	$ 152,683	$ 149,530
Non-controlling interest	-	$ 15,649	$ 107,466
Unitholders' equity	$ 21,019	$ 39,953	$ 259,364

1 The Fund ceased to pay distributions after October 15, 2008. The Amended Forbearance Agreement prohibits distributions and the Fund is retaining distributable cash in order to meet working capital requirements and capital expenditure needs of the Operating Partners and to repay debt.

CAPABILITY TO DELIVER RESULTS

LIQUIDITY AND CAPITAL RESOURCES

FINANCING

The Fund, through Newport Finance Corp., a subsidiary of the Fund, has a Senior Credit Agreement with a syndicate of lenders ("the Lenders"). Since December 31, 2008, the Fund has not been in compliance with certain covenants under the Senior Credit Agreement. On April 1, 2009 and April 29, 2009, the Fund received from the Lenders notices confirming the events of default, advising that no future advances would be available to the Fund from any of the commitments under the Senior Credit Agreement, other than at the sole discretion of the Lenders, and that no other debt could be incurred by the Fund. In addition, the Lenders provided notice to the Fund that it would be charged default interest at 3% per annum for the period from January 31, 2009.

At the beginning of 2009, management of the Fund began discussions with the Lenders with a view to reaching an agreement on the events of default. On July 21, 2009 the Fund announced that a Forbearance Agreement had been entered into with the Lenders. Under the terms of the Forbearance Agreement, the Lenders have agreed to forbear from exercising their default-related rights and remedies under the Senior Credit Agreement for a period of up to 365 days, which period may be reduced upon the occurrence of certain new defaults (the "Forbearance Period").

The Fund agreed to repay the Lenders in full by the end of the Forbearance Period, by realizing minimum net proceeds on disposals of assets and from the proceeds of re-financings of the investee businesses of the Fund by certain agreed-upon dates. The minimum debt repayment targets and agreed upon dates were $70 million by November 10, 2009 and $55 million by January 7, 2010 with the balance to be repaid by July 21, 2010. The Fund is also subject to a minimum EBITDA covenant and to a maximum capital expenditures covenant during the Forbearance Period beginning with the period ended January 2010.

Assuming that the Fund is in compliance with the Forbearance Agreement, the Lenders have also agreed that no default interest will accrue or be payable during the Forbearance Period and have agreed to waive certain prepayment fees which would otherwise continue to apply. Default interest up until the beginning of the Forbearance Period in the amount of $3.5 million is to be paid in part from the proceeds of asset sales with the balance payable at the end of the Forbearance Period.

A forbearance fee is to be paid to the Lenders, in part from asset sales with the balance payable at the end of the Forbearance Period. The fee is initially 75 basis points of the principal amount outstanding under the Senior Credit Agreement, but could be reduced to 25 basis points upon certain repayment targets being achieved. The minimum fee that can now be charged is 50 basis points but only if full repayment is made within 300 days of July 21, 2009. A maximum fee of $1.9 million has been recorded for the year ended December 31, 2009.

On October 1, 2009, the Fund sold its investment in Elliott Special Risks LP for $74.6 million, and the Fund used $70.1 million to repay the Lenders, satisfying in advance the first milestone of the Forbearance Agreement.

On November 25, 2009, the Fund announced that an amendment to the Forbearance Agreement had been entered into with the Lenders (the "First Amendment"). Under the terms of the First Amendment, the requirement to repay $55 million by January 7, 2010 by way of proceeds from the asset sales was amended. The Lenders agreed to allow for repayments by using cash on hand and proceeds from asset sales. $30 million was repaid on November 25, 2009 from cash on hand and the next repayment was scheduled for February 28, 2010 in the amount of $35 million with the balance to be repaid by July 21, 2010. As part of the First Amendment, the Lenders consented to NPH acquiring all of the issued and outstanding equity interests of Gemma that it did not currently own.

On February 19, 2010 the Fund announced a second amendment to the Forbearance Agreement (the "Second Amendment"). Under the terms of the Second Amendment, the requirement to repay $35 million by February 28, 2010 was amended to a requirement to repay $18.5 million. The Fund paid $20 million on February 18, 2010 from cash on hand which amount included a $1.5 million rescheduling fee.

In conjunction with the signing of the Forbearance Agreement, NPH, a subsidiary of the Fund, has arranged for a $20 million subordinated financing facility from an affiliate in order to provide sufficient working capital. The facility bears interest at 10% per annum and repayments of principal and interest can be made after full repayment of amounts owing under the Senior Credit Agreement.

As a consequence of the continuing events of default under the Senior Credit Agreement, the Fund was contractually prohibited under the Collateral Covenants Agreement with the Lenders from remitting the June 30, 2009 interest payment on the Unsecured Subordinated Convertible Debentures (the "Debentures") and as of July 15, 2009, the failure to make the interest payment constituted an event of default under the terms of the Trust Indenture governing the Debentures. The Forbearance Agreement does not permit the Fund to make further interest payments during the Forbearance Period.

Under the terms of the Trust Indenture, the debenture trustee can provide notice to the Fund to declare all principal and interest to become due and payable as a result of the default. The Fund has been in discussions with principal holders of the Debentures with a view to reaching an agreement to restructure the Debentures.

DEBT BALANCES OWING

Amounts drawn as at December 31, 2009 under the Senior Credit Agreement consist of $150.5 million of term debt. The term debt of $150.5 million is classified as a current liability. Subsequent to the amount paid on February 18, 2010, $132.5 million was outstanding on this facility.

Amounts drawn on the subordinated financing facility as at December 31, 2009 were $10.1 million. Interest expense on this facility has been recorded and is payable at the expiry of the Forbearance Period.

Amounts outstanding at December 31, 2009 on the Fund's two series of unsecured subordinated convertible debentures were $156.1 million, which is classified as a current liability in the Fund's consolidated financial statements. This amount is net of unamortized issue costs and amounts categorized as the equity component of the convertible debentures. The principal amount outstanding in total is $164.4 million.

Given the uncertainty surrounding the ability of the Fund to satisfy the terms of the Forbearance Agreement and to restructure the unsecured subordinated convertible debentures, the Fund's consolidated financial statements include going concern disclosure.

SATISFYING THE FORBEARANCE AGREEMENT

Management of the Fund is focused on executing against the terms of the Forbearance Agreement. Subsequent to the payment of $20 million on February 18, 2010 the Fund is obligated to repay to the Lenders by July 21, 2010 $132.5 million plus an approximate $4 million of default interest and forbearance fees, as well as any swap breakage fees for which the Fund may be responsible. Management is actively engaged in discussions with potential buyers on several files with a view to satisfying the majority of the remaining obligation through asset sales. To satisfy the final amounts owing, the Fund expects to arrange, in conjunction with the management of certain Operating Partnerships, senior secured credit facilities for these investments. These facilities, when arranged, will allow the repayment of working capital advances to the Fund, and the final payment of amounts owing to the Lenders.

Management of the Fund believes that, with cash distributions it receives from its investments, it should have sufficient cash resources to fund its corporate expenses, interest expense on senior debt, net working capital needs and capital expenditure needs of its investments during the Forbearance Period.

OPERATING CASH FLOW AND WORKING CAPITAL

Cash provided by operations was $58.9 million for the year ended December 31, 2009, compared to $55.2 million for the year ended December 31, 2008. As a result of the reclassification of $150.5 million of term debt and the reclassification of convertible debentures of $156.1, the Fund had a working capital deficiency of approximately $(212.3) million at December 31, 2009, compared to $(118.3) million at December 31, 2008.

Under the terms of the Forbearance Agreement, the Fund is not permitted to make distribution payments. The Fund will retain cash distributions to meet working capital requirements and capital expenditure needs of the Operating Partners and repay debt.

Financing will be provided from cash from operations, the $20 million subordinated financing facility and from portfolio sales, net of debt repayment and related expenses.

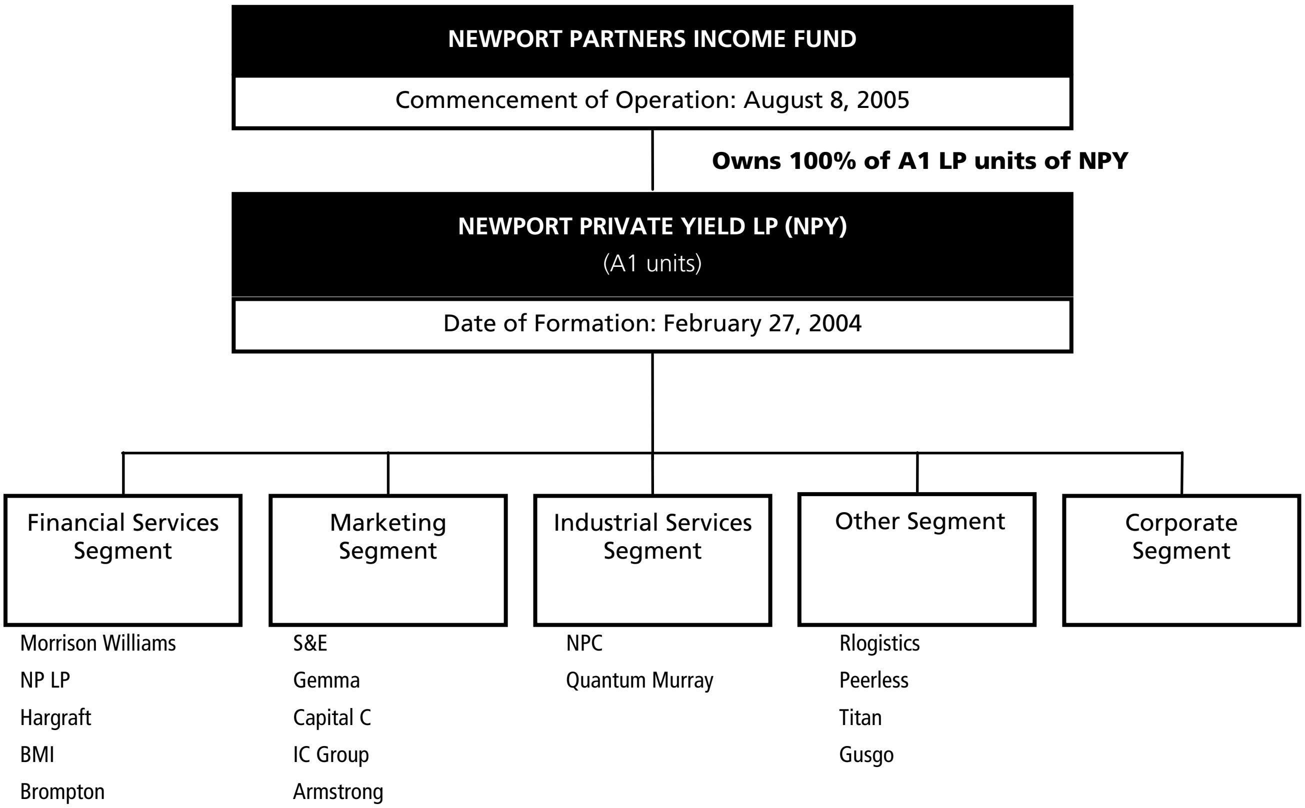
CAPITAL EXPENDITURES

The portfolio incurred total capital expenditures (capital lease payments and capital expenditures) of $14.2 million in the year ended December 31, 2009 compared with $13.4 million in the prior year primarily to support contracts at NPC. The industrial services segment accounted for 89.1% of the Fund's total capital expenditures for the year ended December 31, 2009 (2008 – 85.3%). Restrictions and limits on capital expenditure have been put in place by the Fund.

OTHER FACTORS IMPORTANT TO UNDERSTANDING OUR RESULTS

SIMPLIFIED STRUCTURE – NEWPORT PARTNERS INCOME FUND AND NPY

The Fund is an unincorporated, open-ended, limited purpose trust, which was created to hold an indirect interest in NPY. NPY is a limited partnership formed to invest in securities of private businesses. Management at the Fund and Operating Partnerships, principals and employees of NP LP, Trustees of the Fund, and founding investors of NPY own approximately 50.9 % of the 71,631,431 Units outstanding as at December 31, 2009.



In accordance with CICA guidelines, the Fund groups Operating Partnerships that have generally similar business characteristics into business segments.

UNITS OUTSTANDING AS AT DECEMBER 31, 2009

Pursuant to the Exchange Agreement between CT and NPY, 25,090,701 NPY LP Units were exchanged for Trust units of the Fund during the year ended December 31, 2009. As of December 31, 2009, all NPY LP units were exchanged and there were no remaining NPY LP units outstanding. Trust units of the Fund outstanding as at December 31, 2009 and as at February 28, 2010 were 71,631,431.

On January 20, 2009, the Fund received approval from the TSX for a Normal Course Issuer Bid ("NCIB") to purchase for cancellation through the facilities of the TSX, up to 2,327,194 units through to January 22, 2010, representing 5% of its then-issued and outstanding units. No units were purchased for cancellation under the NCIB.

The unitholders of the Fund approved an Incentive Option Plan (the "Plan") on November 30, 2009. Pursuant to the Plan 7,100,590 units of the Fund have been listed and reserved for issuance upon the exercise of the stock options granted. On January 13, 2010, 7,000,000 options were granted to employees and directors at an exercise price of $0.403 per unit with options vesting in 2010 through to 2013.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Fund prepares its consolidated financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in note 1 in the 2009 audited annual consolidated financial statements, as well as in "Accounting Policies –Accounting Standards Adopted by the Fund in 2009" discussed below. The Fund and the Operating Partnerships evaluate their estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in the consolidated financial statements are estimates used in determining allowance for doubtful accounts, inventory valuation, the useful lives of property, plant and equipment and intangible assets, revenue recognition and other matters. Actual results could differ materially from those estimates and assumptions.

The assessment of goodwill and intangible assets for impairment requires the use of judgements, assumptions and estimates. Due to the material nature of these factors, they are discussed here in greater detail.

GOODWILL AND INTANGIBLE ASSETS

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, fewer liabilities assumed, based on their fair values. When the Fund enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The book value of goodwill was $68.9 million at December 31, 2009 (2008 - $70.6 million).

Intangible assets acquired individually or as part of a group of other assets are recognized and measured at cost. Intangible assets acquired in a transaction, including those acquired in business combinations, are recorded at their fair value. Intangible assets with determinable useful lives, such as customer relationships and contracts, and management contracts, are amortized over their useful lives and are tested for impairment when there is an indicator of impairment. Intangible assets having an indefinite life, such as brands, are not amortized but instead are tested for impairment on an annual or more frequent basis by comparing their fair value with book value. The net book value of intangible assets was $102.0 million at December 31, 2009 (2008 - $169.0 million).

GOODWILL AND INTANGIBLE WRITE-DOWNS

During the third and fourth quarters of 2009, the Fund reviewed the carrying value of all of its investments. The original investment carrying value is based upon the consideration paid by the Fund for each investment. The consideration paid is typically based on a multiple of earnings of the business being acquired. Further, this consideration is allocated to the tangible and intangible assets of the business acquired based on estimates of fair value at the time of acquisition, with any excess being allocated to goodwill. The Fund determined that the fair value of certain investments was lower than the carrying value. As a result, the Fund recorded a goodwill impairment charge of $3.6 million. In assessing whether there was an impairment, the Fund estimated the fair value of its investments using certain assumptions and estimates of earnings. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of its investments and goodwill which would result in further impairment of goodwill.

At the time of the initial public offering of the Fund, net proceeds raised were indirectly invested into NPY giving the Fund an initial indirect ownership of 35% of NPY. The Fund's ownership interest has increased to 100% as at December 31, 2009 through both an additional indirect investment in June 2006, following a public issue of units of the Fund, and also through the exchange by unitholders of units of NPY into units of the Fund. The 2009 unit exchanges resulted in goodwill of $3.6 million at the Fund level. The Fund has determined that the goodwill created on these exchanges is impaired and therefore it has been written off.

During the review of its carrying value of its investments, the Fund also performed an impairment test of its intangible assets, whereby the carrying amount of intangible assets was compared to the discounted future cash flows expected from their use. Impairment tests involve a significant degree of judgement, as expectations concerning future cash flows and the selection of an appropriate discount rate are subject to considerable risks and uncertainties. The Fund concluded that an impairment had occurred and, consequently, the Fund reduced the carrying value of intangible assets by $23.5 million with respect to customer relationships and $12.4 million with respect to brands.

Write-downs of goodwill, customer relationships and brands recorded by the Fund during the year ended December 31, 2009 were as follows:

INVESTMENT	GOODWILL	CUSTOMER RELATIONSHIPS	BRANDS	TOTAL
S&E	$ 371	$ 903	$ -	$ 1,274
NPC	132	11,163	6,278	17,573
Quantum Murray	-	-	1,067	1,067
Hargraft	3,086	7,729	833	11,648
Titan	-	3,655	3,552	7,207
Gusgo	-	-	347	347
BMI	-	-	290	290
	$ 3,589	$ 23,419	$ 12,398	$ 39,406
NPY	3,567	-	-	3,567
	$ 7,156	$ 23,419	$ 12,398	$ 42,973

Write-downs of goodwill, customer relationships and brands recorded by the Fund during the year ended December 31, 2008 was as follows:

INVESTMENT	GOODWILL	CUSTOMER RELATIONSHIPS	BRANDS	TOTAL
NP LP	$ 37,338	$ 6,700	$ 2,952	$ 46,990
S&E	-	1,051	-	1,051
NPC	12,376	5,065	7,842	25,283
Morrison Williams	14,461	7,836	468	22,765
Quantum Murray	4,158	10,360	193	14,711
Hargraft	-	2,440	-	2,440
Titan	7,203	1,533	4,051	12,787
Armstrong	6,375	5,077	2,560	14,012
BMI	-	4,859	461	5,320
	$ 81,911	$ 44,921	$ 18,527	$ 145,359
NPY	85,940	-	-	85,940
	$ 167,851	$ 44,921	$ 18,527	$ 231,299

LONG-TERM INVESTMENTS

Investments over which the Fund is able to exercise significant influence are accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for the Fund's share of post-acquisition earnings or losses, less distributions in the case of investments in partnerships and dividends in the case of investments in companies. Investments are written down when there is evidence that a decline in value that is other than temporary has occurred. The Fund reviews all of its investments for possible impairment on an annual basis, or more frequently if there is an event which in the view of management would trigger an earlier review. The Fund concluded that there was no impairment of long-term investments as at December 31, 2009.

INCOME TAXES

As a result of the Fund suspending distributions in October 2008, and being precluded from making distributions under the Forbearance Agreement, the Fund would be subject to income taxes on its undistributed taxable income. At December 31, 2009, a tax recovery has been recorded to reflect current period losses. The Fund's taxable income is compiled by results from Operating Partnerships and reflects CRA pronouncements and reassessments. In future years, it is anticipated that the Fund would have taxable income.

Although the Fund, its subsidiaries including the Operating Partnerships and their subsidiaries are of the view that all expenses to be claimed by them in the determination of their respective incomes under the Income Tax Act ("Tax Act") is reasonable and deductible in accordance with the applicable provisions of the Tax Act, and that the allocation of partnership income for purposes of the Tax Act between the holders of LP Units and the Commercial Trust is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed or such allocation. If CRA successfully challenges the deductibility of such expenses at the level of the Fund and/or any of its subsidiaries or the allocation of such income, NPY's allocation of taxable income to the Commercial Trust and its limited partners, and indirectly the taxable income of the Fund and the Unitholders of the Fund could be changed. Several of the Operating Partnerships and the Fund are undergoing a review by CRA and the process is ongoing. The Fund, as a flow through entity, will aggregate the results of the review and assess the impact on Unitholders and limited partners of NPY.

Interest on the CT Notes held by the Fund accrued at the Fund level for income tax purposes. The interest rate on the CT Notes was set to zero percent in March 2009. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. If sufficient cash is not available, such distributions will be in the form of Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units into their taxable income, in circumstances where they do not receive a cash distribution. The taxable income of the Fund will be determined by the allocations from CT less expenses and other deductions for tax purposes of the Fund.

The acquisitions of Operating Partnerships involved various structuring events to complete the transactions in a tax effective manner. These transactions involved interpretations of the Tax Act which could, if interpreted differently, result in additional tax liabilities.

The Government of Canada's enactment of Bill C-52 in June 2007 implemented provisions that will make public income trusts (formed before October 31, 2006) subject to the payment of an income tax on their earnings commencing in 2011 (or earlier if certain equity capitalization thresholds are exceeded or if the Fund converts to corporate form). The impact to the Fund of the enactment of Bill C-52 was that, commencing in the second quarter of 2007, the Fund must from that time forward comply with the CICA's recommendations regarding the accounting for future taxes arising from differences between the tax basis of an asset or liability and its carrying amount on the balance sheet under GAAP. What this means for the Fund is that it must estimate the expected value of its assets and liabilities as of January 1, 2011 and compare this to the estimated tax value for these assets and liabilities and record the difference as non-cash future tax amounts using the applicable estimated tax rates of 28.25% in 2011, 26.25% in 2012, 25.5% in 2013 and 25% in subsequent years. In general, there are no material differences in the values for operating assets and liabilities such as accounts receivable, inventory and trade payables for the Operating Partnerships. There are, however, differences[1], for example between the carrying values of definite life intangibles (e.g. customer contracts) and indefinite life intangibles (e.g. brands) that arise as part of the Fund's accounting for its investments in the underlying Operating Partnerships. As one example, under GAAP, the Fund records intangible assets related to acquisitions and these assets, typically, have a lesser value for tax purposes depending on the manner in which the acquisition was structured. In this case, a future tax liability would be recorded for the difference. If the Fund was to divest of one or more of its Operating Partnerships for an amount that is greater than the tax carrying value this would give rise to a gain because the proceeds would be greater than the tax value of the assets. The current tax liability, if any, would be paid out of the proceeds of the divestiture with no impact on the Fund's operating cash flow and the future tax liability previously recorded with respect to the divested Operating Partnership would be reduced accordingly.

Prior to the decision to suspend distributions, no future taxes were recorded on those differences expected to reverse before 2011. At December 31, 2009 the Fund has recorded a future tax liability related to differences that are expected to reverse in 2010 using the applicable estimated tax rate of approximately 31%.

The recording of a future tax expense/recovery has no impact on cash generated by operating activities or on distributable cash.

The Fund has evaluated its alternatives as to the best structure for its unitholders, and intends to propose to unitholders a conversion to a corporate structure in due course.

1 These differences are referred to as either deductible temporary differences or taxable temporary differences and may result in tax-deductible amounts or taxable amounts in future periods and GAAP requires that these differences be recorded.

ACCOUNTING POLICIES

The Fund's accounting policies are disclosed in the notes to the 2009 audited annual consolidated financial statements and in the following disclosure regarding the impact of new accounting standards adopted by the Fund in the 2009.

ACCOUNTING STANDARDS ADOPTED BY THE FUND IN 2009

The Fund adopted the Canadian Institute of Chartered Accountants (CICA), Section 3064 "Goodwill and Intangible Assets", Section 3862 "Financial Investments: Disclosures", and EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities".

(a) Goodwill and Intangible Assets
In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The

new section, which was adopted by the Fund effective January 1, 2009, did not have a material impact on the consolidated financial statements.

(b) Financial Instrument Disclosures

In March 2009, the AcSB amended CICA Handbook Section 3862, Financial Instruments – Disclosures, to enhance the disclosure requirements regarding fair value measurements including the relative reliability of the inputs used in those measurements and the liquidity risk of financial instruments. The standard also requires disclosure of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The amendments are effective for the Fund's 2009 annual consolidated financial statements and its adoption did not have an impact on the consolidated financial statements of the Fund as Section 3862 relates to disclosures.

(c) Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk should be taken into account in determining the fair value of derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of EIC 173. The adoption by the Fund of EIC 173 effective January 1, 2009, did not have a material impact on the interim consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"), for interim and annual reporting purposes, beginning on or after January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Fund for its year ended December 31, 2010 and of the opening balance sheet as at January 1, 2010.

The Fund began planning the transition from current Canadian GAAP to IFRS, in 2008, by establishing a project plan and a project team. The project team is led by a senior finance member who will provide overall project governance, management and support. Members also will include representatives from various areas of the Fund, as necessary as well as representatives from the Operating Partnerships. We have completed the delivery of +training to all employees with responsibilities in the conversion process. The Fund is also working closely with its external auditors in the IFRS conversion project.

A quarterly report is made to the Audit Committee of the Fund and the Audit Committee has also held consultations and information sessions with the external auditors.

The project plan consists of three phases: the initial assessment, detailed assessment and design, and implementation.

The Fund has completed the initial assessment phase. After completing a high level review of the major differences between current Canadian GAAP and IFRS, the Fund has determined that the areas of accounting differences with the highest potential to impact its business are accounting for investments and accounting for fixed assets, as well as initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

The Fund is currently in the process of completing the detailed assessment and design phase, which is primarily focussed on completing a comprehensive analysis of the impact of the IFRS differences identified in the initial assessment phase.

Under current IFRS, as it exists at the date of this MD&A, the Fund would continue to account for its investments in Operating Partnerships using the proportionate consolidation method and there will be no significant changes to the consolidated financial statements. However, IASB Exposure Draft 9 is in its final stages of development and is expected to be issued in the first quarter of 2010. Significant changes suggested in the Exposure Draft include a change that proportionate consolidation will no longer be allowed for jointly controlled entities and they must be accounted for using the equity method. If the Exposure Draft is approved in its current form, significant components of the balance sheet would be condensed to one line item "Investment in Operating Partnerships" for jointly controlled entities. Similarly, the income statement would be primarily condensed to one line item "Income from Jointly Controlled Entities".

During the implementation phase, the Fund will incorporate identified changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting.

2009 PERFORMANCE

Summary Financial Table – (segmented) ($000s)

YEAR ENDED DECEMBER 31, 2009

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES[2]	OTHER	CORPORATE[1]	TOTAL
Revenues	$ 27,789	$ 88,400	$ 397,525	$ 71,159	$ -	$ 584,873
Gross profit	$ 17,907	$ 32,252	$ 75,524	$ 20,705	-	$ 146,388
Income/(loss) from continuing operations before non-controlling interest	$ (8,555)	$ 3,590	$ (17,038)	$ (4,068)	$ (44,599)	$ (70,670)
EBITDA from continuing operations	$ (5,080)	$ 12,393	$ 6,403	$ 3,385	$ (16,370)	$ 731
Write-down of goodwill and intangible assets	11,938	1,274	18,640	7,554	3,567	42,973
Adjusted EBITDA from continuing operations	$ 6,858	$ 13,667	$ 25,043	$ 10,939	$ (12,803)	$ 43,704
Interest income (expense)[2]	121	(184)	(2,680)	(923)	(36,795)	(40,461)
Non-cash interest expense[3]	-	-	-	-	3,453	3,453
Income tax expense	(25)	-	-	-	(18)	(43)
Maintenance capital expenditures and reserves	(1,205)	(806)	86	(148)	-	(2,073)
Capital lease payments	(14)	(233)	(5,508)	(233)	-	(5,988)
Priority Income per partnership agreement[5]	20	-	-	436	-	456
Distributable cash from (used by) continuing operations	$ 5,755	$ 12,444	$ 16,941	$ 10,071	$ (46,163)	$ (952)
Distributable cash from discontinued operations						6,724
Distributable cash retained by the Fund[6]						$ 5,772

1 The results of the Corporate segment include corporate costs and corporate interest expense.

2 The Fund advanced approximately $62,000 to NPC to allow it to complete its investment in Golosky on July 31, 2007. This long term facility can be converted into equity, if certain future performance criteria are met, and in anticipation of the triggering targets being met, and also in order to remove the financing component from the operating results of NPC, interest expense of NPC, and the Industrial Services segment in this Summary Financial table has been reduced by $6,027 for the year ended December 31, 2009 and such amount has been added to the interest expense of the Corporate segment (2008 - $7,507; 2007 - $2,537).

3 Non-cash interest expense relates to the amortization of deferred financings charges and the accretion of the equity component of the Convertible Debentures. Issue costs are amortized over the term of the Debentures, and the debt portion will accrete up to the principal balance at maturity.

4 Management of Gemma has the option to receive its distributions as bonuses. Where this option is chosen, an adjustment is required to calculate the distributable cash to the Fund.

5 To the extent that in any reporting period, calculated on a cumulative basis, the Fund's proportionate share of distributable cash is more or less than its priority amount, an adjustment to distributable cash is made to reflect the actual cash distributions payable to the Fund by the operating partner.

6 As there were no distributions made during 2009, distributable cash per unit information has not been provided.

Summary Financial Table – (segmented) ($000s)
YEAR ENDED DECEMBER 31, 2008

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES[2]	OTHER	CORPORATE[1]	TOTAL
Revenue	$ 34,368	$ 94,036	$ 438,781	$ 85,534	$ -	$ 652,719
Gross profit	$ 22,746	$ 35,855	$ 86,908	$ 24,038	$ -	$ 169,547
Loss from continuing operations before non-controlling interest	$ (92,790)	$ (5,359)	$ (42,178)	$ (7,819)	$ (123,113)	$ (271,259)
EBITDA from continuing operations	$ (91,273)	$ 193	$ (10,039)	$ (422)	$ (93,593)	$ (195,134)
Loss on dilution of ownership interest	-	-	-	-	845	845
Write-down of goodwill and intangible assets	77,516	15,063	39,994	12,786	85,940	231,299
Impairment of long- term investment	29,000	-	-	-	-	29,000
Adjusted EBITDA from continuing operations	$ 15,243	$ 15,256	$ 29,955	$ 12,364	$ (6,808)	$ 66,010
Interest income (expense) [2]	304	(309)	(1,947)	(1,486)	(37,528)	(40,966)
Non-cash interest expense[3]	-	-	-	-	8,345	8,345
Income tax expense-current	(19)	(19)	(6)	-	-	(44)
Maintenance capital expenditures and reserves	(252)	(876)	(4,188)	(309)	-	(5,625)
Capital lease payments	(6)	(132)	(4,356)	(175)	-	(4,669)
Distributions expensed[4]	-	415	-	-	-	415
Priority income per partnership agreement[5]	223	315	1,809	196	-	2,543
Distributable cash from (used by) continuing operations	$ 15,493	$ 14,650	$ 21,267	$ 10,590	$ (35,991)	$ 26,009
Cash from discontinued operations						12,378
Distributable cash						$ 38,387
Distributable cash per unit from continuing operations						$ 0.36
Cash provided per unit from discontinued operations						0.17
Distributable cash per unit						$ 0.53

Summary Financial Table – (segmented) ($000s)
YEAR ENDED DECEMBER 31, 2007

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES[2]	OTHER	CORPORATE[1]	TOTAL
Revenues	$ 35,893	$ 86,816	$ 296,943	$ 93,015	$ -	$ 512,667
Gross profit	$ 24,375	$ 33,998	$ 62,695	$ 24,273	$ -	$ 145,341
Income (loss) from continuing operations before non-controlling interest	$ (1,206)	$ (3,078)	$ 7,099	$ (5,022)	$ (36,457)	$ (38,664)
EBITDA from continuing operations	$ 21,109	$ 11,583	$ 28,891	$ 12,143	$ (12,967)	$ 60,759
Loss on dilution of ownership interest	-	-	-	-	6,958	6,958
Write-down of goodwill and intangible assets	-	2,987	-	-	-	2,987
Adjusted EBITDA from continuing operations	$ 21,109	$ 14,570	$ 28,891	$ 12,143	$ (6,009)	$ 70,704
Interest income (expense[2])	293	(309)	(2,330)	(2,427)	(25,974)	(30,747)
Non-cash interest expense[3]	-	-	-	-	2,797	2,797
Income tax expense - current	(6)	-	-	-	(4)	(10)
Maintenance capital expenditures and reserves	(701)	(872)	(2,312)	(505)	-	(4,390)
Capital lease payments	(2)	(186)	(3,162)	(77)	-	(3,427)
Distributions expensed[4]	-	894	-	-	-	894
Priority Income per partnership agreement[5]	213	612	2,387	486	-	3,698
Distributable cash from (used by) continuing operations	$ 20,906	$ 14,709	$ 23,474	$ 9,620	$ (29,190)	$ 39,519
Distributable cash from discontinued operations						10,426
Distributable cash						$ 49,945
Distributable cash per unit from continuing operations						$ 0.55
Cash provided per unit from discontinued operations						0.15
Distributable cash per unit						$ 0.70

INVESTMENT & FUNDING ACTIVITIES IN 2009

On January 30, 2009, the minority limited partner of ESR delivered to the Fund an offer letter pursuant to the Shotgun Buy-Sell provision of the limited partnership agreement governing ESR. On February 27, 2009 the Fund elected to accept the minority limited partner's offer to sell its 20% interest in ESR. The transaction closed on March 31, 2009, at which time the Fund paid $8,500 and its interest in ESR increased to 100%. On October 1, 2009, the Fund sold its 100% interest in ESR. (See Discontinued Operations)

On February 10, 2009, Hargraft sold the shares of its wholly owned subsidiary, Hargraft Schofield Benefits Inc. for proceeds of $1,274 to the Fund, and recorded a nominal gain on the transaction.

On August 31, 2009, the Fund paid to the vendor of IC Group, the final payment of a three year earn-out provision, pursuant to the original purchase and sale agreement dated July 2006. The final payment amount was $2,337.

On December 4, 2009 the Fund paid $96 to acquire an additional 6% interest in Hargraft, increasing its ownership to 100%.

On August 4, 2009, the minority limited partner of Gemma delivered to the Fund an offer letter pursuant to the Shotgun Buy-Sell provision of the limited partnership agreement governing Gemma. The Fund elected to accept the minority limited partner's offer to sell its 20% interest in Gemma. The transaction closed on January 4, 2010, at which time, the Fund paid $4,316 and its interest in Gemma increased to 100%.

Summary Results from Continuing Operations – ($000s)

	YEAR ENDED DECEMBER 31		
	2009	**2008**	**2007**
Revenues	$ 584,873	$ 652,719	$ 512,667
Cost of revenues	(438,485)	(483,172)	(367,326)
Gross profit	$ 146,388	$ 169,547	$ 145,341
Selling, general and administrative expenses	(105,022)	(107,839)	(81,852)
Amortization expense	(30,368)	(35,180)	(32,086)
Depreciation expense	(13,329)	(11,450)	(8,343)
Income from equity investments	1,106	1,824	3,109
Other income	-	330	1,119
Interest expense	(40,461)	(40,966)	(30,747)
Loss on dilution of ownership interest	-	(845)	(6,958)
Write-down of goodwill and intangible assets	(42,973)	(231,299)	(2,987)
Impairment of long- term investment	-	(29,000)	-
Income tax expense-current	(43)	(44)	(10)
Income tax recovery (expense)-future	14,032	13,663	(25,850)
Loss from continuing operations	$ (70,670)	$ (271,259)	$ (38,664)
Loss from continuing operations	$ (70,670)	$ (271,259)	$ (38,664)
Add:			
Amortization	30,368	35,180	32,086
Depreciation[1]	13,411	11,662	8,343
Amortization of Brompton intangible assets	1,150	1,936	2,387
Interest expense	40,461	40,966	30,747
Income tax expense-current	43	44	10
Income tax (recovery) expense-future	(14,032)	(13,663)	25,850
EBITDA	$ 731	$ (195,134)	$ 60,759
Loss on dilution of ownership interest	-	845	6,958
Write-down of goodwill, intangible assets and long-term investment	42,973	260,299	2,987
Adjusted EBITDA	$ 43,704	$ 66,010	$ 70,704

1 Depreciation of $82 was recorded in Cost of revenues for the year ended December 31, 2009 (2008 - $212; 2007 – $nil).

2009 Results Commentary

The Fund's Continuing Operations from its portfolio investments are reported in four operating segments: Financial Services, Marketing, Industrial Services and Other. Revenues for the year ended December 31, 2009 were $584,873 compared to $652,719 in 2008, a decrease of 10.4%. This decrease in revenue from 2008 to 2009 reflects the overall weak economy and its impact on budgets of the clients and industries of all the operating segments. Revenues in 2009 increased 14.1% compared to revenues of $512,667 in 2007 reflecting a full year of investments acquired in 2007.

Gross profit for the year ended December 31, 2009 was $146,388 compared to $169,547 in 2008, a decrease of 13.7% and an increase of 0.7% compared to $145,341 in 2007. Gross profit margins have remained consistent at 25.0% for 2009 and 26.0% for 2008.

These four operating segments produced $56,507 of adjusted EBITDA for the Fund compared to $72,818 in 2008, and $76,713 in 2007.

The five largest EBITDA contributors in the portfolio in 2009 were NPC, Peerless, Capital C, Quantum Murray and Morrison Williams. Each business had a slow start to the year, however, they gained momentum as the economy strengthened in the second half of the year.

NPC's results for the year were mixed. The specialty wear technology division benefited from increased demand and had strong gross margin contribution. The conventional oil and gas maintenance service businesses struggled alongside the industry as clients reduced or deferred spending and increased competition impacted pricing. Construction revenue in both the conventional and oil sand sectors has been significantly reduced with the lower commodity prices.

Peerless had a strong year as it successfully executed on two large government projects that were secured in late 2008.

Capital C had satisfactory results this year considering clients were cautious with their marketing spending. The first half of the year was marked by clients reducing and deferring their marketing budgets. Business development activities have been successful in attracting new clients, and new assignments and deeper relationships with existing clients.

Quantum Murray's performance was mixed on a divisional basis. The environmental division was a strong contributor as it benefited from a large remediation project from the Ontario Ministry of the Environment. The demolition division had a disappointing year with first quarter losses from cost overruns and limited large industrial demolition projects as a result of the economic climate. Competitive pressures were extensive and smaller industrial projects had to be aggressively priced to secure the work, resulting in compressed margins. Slumping commodity prices throughout the year caused margin compression and inventory losses at the scrap metal division.

Morrison Williams' and NP LP's results for the year were as expected given the volatility in the financial markets. AUM levels began to modestly improve during the last quarter of the year.

The Fund's results were also impacted by strong results from IC Group which achieved its best year since its acquisition. Interactive and on-line loyalty programs have been well received by core clients who continued to expand their business with IC Group.

Gemma had a solid year as it replaced, to a large extent, its financial services clientele with other clients who were less impacted by the global recession. Gemma was successful in diversifying its service offering during the year to expanded inbound customer care programs with key clients, in addition to its outbound offerings. While revenues did not return to prior year levels, great strides were made in client development, which should position Gemma for revenue gains in the future.

Gusgo suffered from reduced transportation revenue volumes as the entire industry was impacted by the weak economy. Storage services continued to be a steady revenue stream for Gusgo during the year.

S&E had a transitional year as it tried to rebuild its client base which was greatly impacted by competitive pressures.

Armstrong's results have been impacted by the drop in consumer spending particularly in the US where many of its customers operate. Armstrong focused on diversifying its product offering to become a fully integrated marketing services company offering expanded marketing and advertising options to its existing and new client base.

Both Hargraft's and BMI's insurance operations have been affected by a continuing soft insurance market which has increased competition and put downward pressure on premiums and also commission income. Hargraft was particularly hard hit which necessitated sharp cost reductions and restructuring of operations.

The Fund's Corporate segment includes administrative costs to operate the Fund, and interest costs on borrowings to fund investments and working capital of the portfolio's businesses. The costs include significant legal costs associated with initiatives to restructure the balance sheet and the cost of increased resources to manage the Fund's investments. Corporate office costs were $12,803 for the year ended December 31, 2009 compared with $6,808 in 2008 and $6,009 in 2007. These costs reduced total adjusted EBITDA to $43,704 for the year ended December 31, 2009 compared with $66,010 in 2008 and $70,704 in 2007.

The main items that reduce Adjusted EBITDA to arrive at distributable cash are interest expense and maintenance capital expenditures. Cash interest costs for the year increased from 2008 due to the default interest and interest related to the Forbearance Agreement. During the year, cash interest costs were $37,008 compared with $32,621 in 2008 and $27,950 in 2007.

During 2009, the operating segments had capital expenditures and capital lease payments of $14,236, as compared to $13,442 in 2008 and $8,735 in 2007. The majority of these expenditures are incurred in the Industrial Services segments.

Distributable cash used by continuing operations for the year ended December 31, 2009 was $(952) compared with $26,009 in 2008 and $39,519 in 2007.

Non-cash items that impacted the results were depreciation and amortization, the write-down of goodwill and intangible assets, impairment of long- term investments and future income taxes. Depreciation and amortization was $43,779 for the year ended December 31, 2009, compared to $46,842 in 2008 and $40,429 in 2007. The largest component of this expense is the amortization of intangible assets, which are recorded as investments are made.

During the third and fourth quarters of 2009, the Fund reviewed the carrying value of all of its investments. As part of the review, the Fund re-calculated the fair value of intangible assets and goodwill based on current or expected earnings of the businesses, and based on current earnings multiples consistent with publicly available multiples of comparable businesses. This review has resulted in write-downs of goodwill and intangible assets of several investments for $42,973, (2008 - $231,299; 2007 - $2,987). There was a write-down of a long- term investment in the amounts of $29,000 in 2008.

In addition, in 2008 management of the Fund reviewed its investment in NPY and determined that the net goodwill of $85,940 created on the Fund's initial investments in NPY should be written off. In 2009 goodwill of $3,567 was created on exchanges and was subsequently written off.

The enactment in June 2007 of Bill C-52, subjecting the Fund to taxation on its taxable income beginning in 2011, resulted in a GAAP requirement to record a future income tax expense in 2007 of $25,850 as the Fund was required to record future income tax related to temporary differences, which reverse after 2010, at the Fund level. These differences are between the accounting and tax basis of the Fund's net assets, and the majority of the differences relates to intangible assets. As a result of the write-downs of intangible assets, the Fund has recorded a future income tax recovery in 2009 of $14,032 and $13,663 in 2008. In addition, due to the decision to suspend distributions in late 2008, the Fund no longer qualifies for the exemption from recording future taxes under Accounting Emerging Issues Guidance (EIC 107), which is available to income trusts that are committed to distributing their taxable income to unitholders. Accordingly, the Fund has also recorded a net future tax liability in respect of differences reversing prior to 2011 for which, previously, the EIC 107 exemption had applied.

The tax recoveries recorded in 2009 of $14,032 and of $13,663 in 2008, and the tax expense recorded in 2007 of $25,850, are non-cash items that have no current impact on the Fund's cash from operating activities.

Net loss for the year ended December 31, 2009 from continuing operations before non-controlling interest was $(70,670) compared to a loss of $(271,259) in 2008 and $(38,664) in 2007.

2009 PERFORMANCE SUMMARY – BY OPERATING PARTNERSHIPS

OPERATING PARTNERSHIP	ADJUSTED EBITDA ($000s)	DISTRIBUTABLE CASH ($000s)	2009 YIELD (%) [(2)]	COMMENTARY
FINANCIAL SERVICES				
Brompton	1,225	-	-	Brompton is an asset manager of public and private investment funds. During the year, net AUM increased by $494 million or 47%. The increase resulted from Brompton's appointment as manager of two new funds, the launch of two new funds and the exercise of warrants issued by funds and market appreciation. The increase in net assets from these items was partially offset by annual redemptions. Brompton continues to search for and structure new investment products which can be brought to market.
Morrison Williams	4,482	4,482	10.7%	Morrison Williams provides investment management services to institutional clients. Morrison Williams results reflect a lower average AUM base than in prior years given the major sell-off in equity securities in the fourth quarter of 2008. Morrison Williams results were impacted by continued weak and volatile market conditions in early 2009. Revenue for Morrison Williams is driven by the performance of the equity and bond markets which started to show a rebound in the second quarter. Improvements during the latter half of the year partially offset the decline from prior levels with a 1% increase in AUM year over year. In light of the tumultuous market conditions, Morrison Williams focused on client retention throughout the year and has maintained a stable client base. With the expectation of market and economic conditions improving, so will AUM and Morrison Williams' revenues in the foreseeable future.
NP LP	1,528	1,475	7.1%	NP LP provides investment management, corporate advisory and insurance services to its clients. Results for the year were mixed as investment management fees for the first half of the year were below prior year levels due to market conditions, lower AUM and significant cash holdings as a defensive response to the market instability. A continuous growth in clients, as well as an improvement in the financial markets resulted in higher AUM and management fee revenue in the second half of the year. Consulting fees were below prior year levels reflecting reduced levels of corporate advisory assignments. Insurance services revenues were comparable to prior year levels. There is cautious optimism for the upcoming year with the expectation of a strengthening economy and momentum in financial markets. There is continued focus on developing the client base and growing AUM.
Hargraft	(1,270)[1]	(1,208)	(6.6%)	Hargraft is an insurance broker specializing in the transportation, manufacturing and construction sectors. The competitive landscape within which Hargraft operates has been very onerous. Hargraft's transportation clients continued the trend of reducing fleet sizes and applying pressure on premiums. Restructuring measures at Hargraft commenced in the third quarter and continued in to the fourth quarter in response to current circumstances. With the appointment of new senior management in the fourth quarter, there is cautious optimism that business development efforts will improve results for the upcoming year.
BMI	893[1]	1,006	5.5%	BMI is a full service insurance broker focusing primarily on commercial clientele with expertise in the transportation sector. The global economic recession impacted all business segments to some degree causing contraction of BMI's client base. The "soft market" in insurance has also persisted with resultant rate reductions required to retain business. BMI's results were impacted by the loss of a significant client early in the year who restructured its program with another provider; otherwise client retention has been good. BMI has initiated cost savings measures in response to these conditions. Since insurance capacity is in ample supply, the competitive commercial market is expected to continue into the next year, and with a slow economic recovery some further business contraction is possible. Management is focusing on expanding certain segments within its commercial portfolio that have shown signs of opportunities for growth.
	6,858	**5,755**		
MARKETING				
S&E	314[1]	280	4.9%	S&E is a provider of sports-related marketing and sponsorship and event management services. S&E had a transitional year with a change in senior management and the loss of two significant clients. Management modified its service offering to focus on sponsorship and marketing consulting, sponsorship account and event management. Client development was the focus throughout the year and there were great strides made in attracting new accounts. Management's focus for the new year is to develop the client base and promote its new service offering.
Gemma	3,786	3,523	12.6%	Gemma is an outsourced contact centre operator providing outbound revenue generation and inbound customer care services. Gemma had a challenging year as it recovered from the sharp reductions of credit marketing activities across its financial services portfolio in late 2008. This portfolio represented a significant portion of the prior year revenues. On a positive note, management was able to replace a substantial portion of this revenue through organic growth of existing clients who were less impacted by the weak economy. In addition Gemma was successful in launching a large inbound sales program which has improved the balance of the revenue stream between inbound customer care and outbound telesales. Client development efforts brought in a few key large clients during the last month of the year which is providing optimism for the upcoming year.

OPERATING PARTNERSHIP	ADJUSTED EBITDA ($000s)	DISTRIBUTABLE CASH ($000s)	2009 YIELD (%) [2]	COMMENTARY
Capital C	5,707	4,983	20.9%	Capital C is an integrated marketing services agency. Capital C had a strong year considering the economic turmoil and uncertainty. During the first half of the year, Capital C saw their clients often deferring and sometimes curtailing their marketing budgets. Through client development and product diversification Capital C was able to expand its customer base and consolidate services for their existing clients. The second half of the year saw a surge in business as there was pent up demand for marketing services. With the revival in marketing spending, Capital C expects a strong upcoming year as clients gain more confidence in the economy.
IC Group	2,685	2,567	27.1%	IC Group is a provider of online promotional and loyalty programs, and a provider of select insurance products. Results for 2009 marked IC Group's best performance since its acquisition in 2006. Revenues were significantly above previous year's levels primarily due to growth in interactive revenues from a few key accounts. This growth more than offset the decline in revenue from the insurance division. IC Group's outlook is cautiously optimistic. A few key accounts will be the main revenue drivers which creates some risk of reliance on large clients. Mitigating this risk is a focus on business development of existing and new clients that is showing signs of traction. Resources have been added to the insurance division to revitalize this important segment of the business.
Armstrong	1,175	1,091	5.5%	Armstrong is a fully integrated marketing agency providing in-store promotional marketing, digital and social media marketing solutions. Armstrong's results for the year were satisfactory considering the economic climate. With its customer base in both the US and Canada, many clients reduced their advertising budgets and deferred their marketing programs. Armstrong invested in strategic growth areas to overcome the trend of margin compression and reduced client expenditure in traditional services. Social media marketing and digital services are areas of focus for Armstrong. The second half of the year showed signs of client spending improvement and client development activities showed some traction and Armstrong is positioned well for the upcoming year.
	13,667	**12,444**		
INDUSTRIAL SERVICES				
NPC	19,478[1]	15,879	15.0%	NPC provides oil and gas maintenance, construction and wear technology services to both the conventional oil and gas industry and to the oil sands. The results for the year were sharply contrasted in the first and second half of the year. The first half of the year was slow across all divisions except the wear technology division. With low oil and gas prices, clients deferred conventional gas exploration and development projects. In addition, conventional and oil sands maintenance services were subject to competitive pricing pressures, and these divisions experienced cost overruns on fixed price contracts as well. The second half of the year saw a revival in demand for maintenance and labour supply in both the conventional and oil sands services division. The wear technology division experienced stronger demand and maintained its margins. The conventional oil and gas services divisions remained below prior year levels and fabrication work continued to be lower throughout 2009 due to lower oil sand construction activity. NPC's outlook for 2010 is optimistic. The fabrication and wear technology division anticipates increased volumes. Increased activity is expected in the oil sands industry with the announcement of four major projects.
Quantum Murray	5,565[1]	1,062	1.6%	Quantum Murray is a national provider of demolition, remediation and scrap metal services. Results for the year were mixed from a divisional standpoint. The environmental division had a strong year mostly due to a large project for the Ontario Ministry of the Environment. This project was completed in December, 2009. There were also two substantial federal government projects in the Arctic that contributed to the division's success in the year. The demolition division struggled throughout the year as a result of the economic downturn and its impact on industrial demolition activity. The smaller commercial demolition projects that made up the bulk of the division's business in 2009 carried lower margins due to competitive pressures. In addition, the division's results were impacted by losses on a major B.C. project in the first quarter of the year. Cost cutting measures were taken in the demolition division throughout the year to align costs with lower volumes. On a positive note, there are signs in early 2010 that industrial demolition activity is beginning to improve. The metals division also had a difficult year. While scrap prices increased through the year, industrial and demolition scrap volumes were reduced. As a result, margins were compressed as competition for buying scrap metal increased direct costs. The outlook for the metals division will largely be dependent on the recovery of industrial activity in Ontario.
	25,043	**16,941**		

OPERATING PARTNERSHIP	ADJUSTED EBITDA ($000s)	DISTRIBUTABLE CASH ($000s)	2009 YIELD (%) [2]	COMMENTARY
OTHER				
Peerless	6,633	6,385	17.7%	Peerless is a supplier of garments to the Canadian military. Peerless had a strong year as it executed on two large government contracts that were awarded by the Ministry of Defence in late 2008/early 2009. During the first half of the year, some subcontractor and material procurement challenges were experienced which delayed the ramp up in production. However, by the second half of the year full production and shipment was reached on these contracts. Consequently, as the year progressed, margins improved as production efficiencies in material consumption were realized. As Peerless looks forward there is optimism that additional options on current contracts will be awarded. Since Peerless' revenue is dependent on the awarding of government contracts it is difficult to predict the timing of new contracts.
Titan	1,324[1]	400	1.9%	Titan is a manufacturer and distributor of rigging products, rigging services and ground engaging tools to a number of industries including, oil and gas, transportation, mining, pipeline, construction and government. Titan had a challenging year with revenue down across all product lines. Titan's business is heavily reliant on the Alberta oil and gas industry which has been depressed since 2008. As well, the construction industry was hard hit by the economic downturn. The reduction in drilling activity resulted in a sharp decrease in rigging product and service revenues. Gross margin compression also impacted results due to stiff pricing competitiveness. Management promptly reacted to the decline in business with deep cost cutting measures. Looking forward, drilling activity is expected to modestly improve which should translate into improved revenues from the oil and gas industries including the transportation sector. With the anticipated increase in oil sands activity Titan should see some improvement in the second half of 2010.
Gusgo	1,877[1]	2,181	17.4%	Gusgo is a provider of container transportation and storage services. Gusgo had a satisfactory year considering the economic downturn and the struggling transportation industry. Overall results were down from prior years as container shipment business volumes were down in Canada and the US. Gusgo was able to maintain its customer base despite competitive pricing pressures, and reduced revenues were simply a reflection of lower volumes. The storage services business remained a solid revenue stream for Gusgo. It is expected that it will take more time for the transportation industry to rebound to historical levels. Gusgo continues to look for ways to consolidate business with existing clients who may use several logistics providers.
Rlogistics	1,105	1,105	11.1%	Rlogistics is a reseller of close-out, discount and refurbished consumer electronic and household goods in Ontario. Rlogistics continued to face a very competitive retail environment in 2009. Rlogistics has experienced downward pressure on same store sales and has seen an increase in inventory shrinkage in its retail stores. Rlogistics plans to open new stores when management sees opportunities and close underperforming stores. There are also plans to move certain stores with smaller footprints to larger locations (where possible) that can be better merchandised.
	10,939	**10,071**		

1 Excludes a write-down of intangible assets, refer to the Goodwill and Intangible Write-downs sections
2 Distributable cash as a percentage of weighted invested capital

SEGMENT OPERATING RESULTS

FINANCIAL SERVICES

The Financial Services segment includes the Fund's proportionate share of NP LP, Morrison Williams, Brompton, Hargraft and BMI. The results of ESR, sold on October 1, 2009, are included in Discontinued Operations and are not reflected in the tables below (see Discontinued Operations section on page 39).

Morrison Williams	-	Provides investment management services to institutional clients
NP LP	-	Provider of investment management and corporate advisory and insurance services
Hargraft	-	Insurance broker specializing in the transportation, manufacturing and construction sectors
BMI	-	Full-service insurance broker focusing primarily on commercial clientele with expertise in the transportation sector
Brompton	-	Asset manager of public and private investment funds

Summary Financial Table ($000s)

	YEAR ENDED DECEMBER 31		
	2009	2008	2007
Revenues	$ 27,789	$ 34,368	$ 35,893
Cost of revenues	(9,882)	(11,622)	(11,518)
Gross profit	$ 17,907	$ 22,746	$ 24,375
Selling, general and administrative expenses	(12,245)	(10,079)	(8,574)
Amortization expense	(7,545)	(8,635)	(8,098)
Depreciation expense	(317)	(323)	(378)
Income from equity investments	46	310	1,802
Other income	-	330	1,119
Interest income	121	304	293
Write-down of goodwill and intangible assets	(11,938)	(77,516)	-
Impairment of long- term investments	-	(29,000)	-
Income tax expense-current	(25)	(19)	(6)
Income tax (expense) recovery -future	5,441	9,092	(11,739)
Loss for the year	$ (8,555)	$ (92,790)	$ (1,206)
Add:			
Amortization	7,545	8,635	8,098
Depreciation	317	323	378
Amortization of Brompton intangible assets	1,150	1,936	2,387
Interest income	(121)	(304)	(293)
Income tax expense -current	25	19	6
Income tax expense (recovery) -future	(5,441)	(9,092)	11,739
EBITDA	$ (5,080)	$ (91,273)	$ 21,109
Write-down of goodwill, intangible assets and long-term investments	11,938	106,516	-
Adjusted EBITDA	$ 6,858	$ 15,243	$ 21,109

Supplementary Financial Information – AUM (millions)

	YEAR ENDED DECEMBER 31		
	2009	2008	2007
NP LP	$ 1,006	$ 856	$ 1,107
Morrison Williams	3,035	2,975	4,344
Brompton	1,540	1,046	2,261
Total	$ 5,581	$ 4,877	$ 7,712

2009 RESULTS COMPARED TO 2008

(I) REVENUES

Revenue from the Financial Services segment was $27,789 in 2009, which represents a 19.1% decrease over the $34,368 reported for 2008.

2009 was a challenging year for all the businesses within the financial services segment. The turbulent economy impacted the insurance businesses client base and reduced AUM for the investment management businesses. The commercial insurance market remained soft throughout the year which impacted the two insurance companies in the portfolio. With insurance capacity in ample supply, competitive pressure necessitated rate reductions to retain clients. A large segment of BMI's business is derived from the transportation sector which has been greatly impacted by the recession. Business closures and consolidations eroded the client base at both BMI and Hargraft.

The investment management businesses of NP LP and Morrison Williams had a mixed year as the financial markets' sell off in the second half of 2008 continued into the first quarter of the year. Modest market recovery began in the second half of the year with assets under management appreciating. Revenues at both Morrison Williams and NP LP are driven by AUM, which were improved at year end compared to prior year by 1% and 18% respectively. Both NP LP and Morrison Williams focused on client retention during this year of market uncertainty.

(II) GROSS PROFIT

Gross profit for the year ended December 31, 2009 was $17,907, which translated into a 64.4% gross profit margin. This compares to gross profit of $22,746 for the prior year, reflecting a gross profit margin of 66.2%.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $12,245 for the year ended December 31, 2009 compared with $10,079 for the year ended December 31, 2008. Selling, general and administrative expenses as a percentage of revenues was 44.1%, compared to 29.3% in 2008. These costs are typically fixed, however this years' increase in SG&A expenses reflect restructuring costs incurred at Hargraft primarily relating to employee severance costs and bad debt provisions.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $7,862 for the year ended December 31, 2009 compared to $8,958 for the year ended December 31, 2008. The largest component of this expense is the amortization of intangible assets which were recorded as investments were made in Operating Partnerships.

(V) WRITE-DOWN OF INTANGIBLES

During 2009, a write-down of intangible assets in the amount of $11,938 was recorded relating to the Fund's investment in BMI and Hargraft. In 2008, a write-down of intangible assets in the amount of $77,516 was recorded relating to the Fund's investment in each business within the financial services segment. The investment in Brompton was written down by $29,000. See section "Goodwill and Intangible Write-downs".

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $6,858 for the year ended December 31, 2009 compared to $15,243 in 2008. Adjusted EBITDA also includes the income from the Fund's equity investment in Brompton.

(VII) INCOME TAX

Current tax expense for the year ended December 31, 2009 was $25 compared to $19 in 2008. Future tax recovery for the year ended December 31, 2009 was $5,441 compared to $9,092 in 2008.

Please see a discussion on income taxes in the section on Income Taxes.

(VIII) LOSS

Net loss for the year was $(8,555) compared to net loss of $(92,790) in 2008.

(IX) SEASONALITY

The asset management businesses and insurance businesses are not subject to material seasonality factors.

(X) OUTLOOK

Conditions in the commercial insurance market are expected to remain challenging into 2010. With insurance capacity in ample supply and client closures and consolidations, the competitive landscape is expected to continue. Both Hargraft and BMI have taken cost cutting measures in response to the soft insurance market. The president of BMI is now overseeing both operations and with this change, steps are being taken to provide a shared cost structure, and to strengthen the overall platform of the insurance operations Management is focusing on expanding certain segments within the commercial portfolio that have shown signs of opportunities for growth.

The cautious view is that the trend of market improvement is expected to continue into the new year. Based on stable or improved financial markets, Morrison Williams believes it will see improvement in AUM, but new business will take longer to develop. NP LP is focusing on client development to organically grow AUM and to attract advisory and insurance services business.

2008 RESULTS COMPARED TO 2007

(I) REVENUES

Revenue from the Financial Services segment was $34,368 for the year ended December 31, 2008, which represents a 4.2% decrease from the $35,893 reported for the year ended December 31, 2007.

Revenues of each business in this segment are lower than the prior year. Revenues of the two insurance businesses have been negatively impacted by a continuing soft insurance market. Heightened competition and price compression have limited growth opportunities as insurance premiums have been reduced, which has, in turn, reduced commission income earned. Significant marketing activities have been undertaken in efforts to retain existing clients. In addition, commission income from both Hargraft and Baird's transportation clients were lower due to industry consolidation.

The investment management businesses of both Morrison Williams and NP LP were severely impacted by the unprecedented market volatility. For these two businesses, assets under management at December 31, 2008 were 32% and 23% respectively below the 2007 year end levels. These asset reductions, driven by market conditions, result in top line and bottom line impacts for these businesses. NP LP's corporate advisory and insurance services businesses have performed well in 2008, with increases over prior year revenues.

(II) GROSS PROFIT

Gross profit was $22,746, which translated into a 66.2% gross profit margin. This compares to gross profit of $24,375 for 2007, reflecting a gross profit margin of 67.9%.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2008 were $10,079 compared with $8,574 in 2007. Selling, general and administrative expenses as a percentage of revenues was 29.3%, compared to 23.9% in 2007. The increase relates to changes in senior management at Hargraft.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the year ended December 31, 2008 was $8,958 compared to $8,476 for 2007. The largest component of this expense is the amortization of intangible assets which are recorded as a result of investments made in Operating Partnerships.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During 2008, a write-down of intangible assets in the amount of $77,516 was recorded relating to the Fund's investment in each business within the financial services segment. The investment in Brompton was written down by $29,000. See section "Goodwill and Intangible Write-downs". There were no write-downs of intangibles assets in 2007.

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $15,243 for the year ended December 31, 2008 and for 2007 the Adjusted EBITDA was $21,109. EBITDA also includes the income from our equity investment in Brompton.

(VII) INCOME TAX

Current tax expense for 2008 was $19 compared to $6 in 2007. Future tax recovery for the year ended December 31, 2008 was $9,092 compared to Future Tax Expense of $11,739 in 2007.

In 2008, the Fund recorded the write-down in its carrying value of intangibles. This resulted in a recording of future income tax recovery. Also, due to the Fund suspending distributions in late 2008, it is expected that in future periods the Fund will be subject to income tax on its taxable income. The Fund is, therefore, required to record a future tax liability related to timing differences that are expected to reverse between 2008-2010, and for which there was no future tax liability recorded in 2007. The future tax recovery for 2008 was $9,092 compared with a future tax expense of $11,739 in 2007.

(VIII) LOSS

Net loss for 2008 was $(92,790) compared to net loss of $(1,206) in 2007.

MARKETING

The Marketing segment includes the Fund's proportionate share of the results of S&E, Gemma, Capital C, IC Group and Armstrong.

S&E	-	Provider of sports related marketing, sponsorship and event management services
Gemma	-	Outsourced contact centre operator providing outbound revenue generation and inbound customer care services
Capital C	-	Integrated marketing services agency
IC Group	-	Provider of on-line promotional and loyalty programs and a provider of select insurance products
Armstrong	-	Fully integrated marketing agency providing in-store promotional marketing, digital and social media marketing solutions

Summary Financial Table ($000s)

	YEAR ENDED DECEMBER 31		
	2009	**2008**	**2007**
Revenues	$ 88,400	$ 94,036	$ 86,816
Cost of revenues	(56,148)	(58,181)	(52,818)
Gross profit	$ 32,252	$ 35,855	$ 33,998
Selling, general and administrative expenses	(18,535)	(20,642)	(19,428)
Amortization expense	(7,052)	(6,268)	(6,586)
Depreciation expense	(1,485)	(1,474)	(1,542)
Income from equity investments	(50)	43	-
Interest expense	(184)	(309)	(309)
Write-down of goodwill and intangible assets	(1,274)	(15,063)	(2,987)
Income tax expense-current	-	(19)	-
Income tax (expense)recovery -future	(82)	2,518	(6,224)
Income (loss) for the year	$ 3,590	$ (5,359)	$ (3,078)
Income (loss) for the year	$ 3,590	$ (5,359)	$ (3,078)
Add:			
Amortization	7,052	6,268	6,586
Depreciation	1,485	1,474	1,542
Interest expense	184	309	309
Income expense – current	-	19	-
Income tax expense (recovery) -future	82	(2,518)	6,224
EBITDA	$ 12,393	$ 193	$ 11,583
Write-down of goodwill and intangible assets	1,274	15,063	2,987
Adjusted EBITDA	$ 13,667	$ 15,256	$ 14,570

2009 RESULTS COMPARED TO 2008

(I) REVENUES

Revenues for the Marketing segment were $88,400, a 6% decrease over 2008 revenues of $94,036.

In general, all five businesses within the marketing segment were impacted to various degrees by client budget reductions in light of the uncertain economy. The first half of the year was marked by clients reducing marketing spending either deferring or cancelling their advertising and marketing programs. The second half of the year showed signs of growing confidence and client spending improvements.

Gemma had a challenging year as it recovered from the reduced credit card marketing revenue from its large financial services clients. Significant progress was made during the year in securing new clients and expanding services with existing clients. Gemma's revenue mix changed during the year from being weighted towards outbound sales support to a mix of inbound customer care and outbound sales.

Armstrong had a satisfactory year considering the economic climate. Revenues were down from prior year as clients reduced their advertising budgets. Armstrong focused on diversifying its service offering to attract new clients and to offer expanded advertising and marketing options to existing clients.

IC Group had its most successful year since it was acquired. Revenues were significantly above prior year levels primarily due to increased interactive revenues and prizing revenue from a few key accounts.

Capital C's revenues were comparable to prior year, despite a slow start to the year. The first half of the year was marked by reduced client spending as clients deferred their marketing budgets until signs of a stronger economy.

There was a surge in business in the last quarter of the year as clients fulfilled pent up demand for marketing services. Capital C also benefited from client development activities and from client consolidation of marketing services providers.

S&E experienced reduced revenues compared to prior year as two major clients reduced their business volumes. Some progress was made during the year in securing new accounts and building its client base.

(II) GROSS PROFIT

Gross profit for the Marketing segment was $32,252 and gross margin was 36.5% for the year ended December 31, 2009. For the comparative year ended December 31, 2008, gross profit was $35,855 and gross profit margin was 38.1%.

The decline in gross margin reflects the competitive landscape and pricing pressure the marketing segment is experiencing.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2009 were $18,535 compared to $20,642 in 2008. These expenses as a percentage of revenues were 21.0% in 2009 compared to 22.0% in 2008. The decrease relates to cost cutting measures taken to offset some of the revenue decline.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense was $8,537 for the year ended December 31, 2009, compared with $7,742 in 2008. The largest component of this expense is the amortization of intangible assets, which were recorded as investments were made in Operating Partnerships. Typically, the level of capital expenditures in this service segment is low.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During 2009, write-downs of goodwill and intangibles assets in the amount of $1,274 were recorded relating to the Fund's investment in S&E. In 2008, write-downs of goodwill and intangible assets in the amount of $15,063 were recorded relating to the Fund's investment in Armstrong and S&E. See section "Goodwill and Intangibles Write-downs".

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $13,667 for the year ended December 31, 2009 compared with $15,256 in 2008.

(VII) INCOME TAX

The current tax expense for the year ended December 31, 2009 was $nil, compared to $19 in 2008. Future tax expense for the year ended December 31, 2009 was $82, compared to a future tax recovery of $2,518 for 2008.

Please see a discussion on income taxes in the section on Income Taxes.

(VIII) INCOME (LOSS)

Net income for the year ended December 31, 2009 was $3,590, compared to a loss of $(5,359) in 2008. The variance largely relates to the goodwill and intangible write-offs recorded in 2008.

(IX) SEASONALITY

Seasonality is not typically a material factor for the Marketing segment.

(X) OUTLOOK

The outlook is somewhat optimistic for the marketing segment. It is anticipated that if the economy strengthens, companies will return to traditional levels of marketing and advertising activities.

Armstrong has seen increased spending in its customer base in the last half of the year and anticipates this trend to continue. With an expanded service offering, Armstrong is positioned for a strong year.

IC Group's interactive and loyalty programs are being well received in the market and the outlook for this niche is positive although there may be some margin pressure. Resources have been added to the insurance division to grow this business.

Gemma's outlook is optimistic as client development efforts have seen traction in the year. The increase in inbound customer care programs provides an opportunity to balance the revenue streams and attract new clients.

Capital C is expecting a solid year as clients continue to have confidence in the economy and client development efforts show traction.

S&E's outlook is mixed. New business is being sought and significant efforts are being made in client development areas. However revenue is not expected to return to prior year levels in the short term.

2008 RESULTS COMPARED TO 2007

(I) REVENUES

Revenues for the Marketing segment were $94,036 and 8% increase over 2007 revenues of $86,816. The majority of the increase relates to a strong performance in the year from Capital C. The lengthy business development activities commenced in mid-2007 at Capital C have resulted in new clients and new assignments, and deeper relationships with existing clients. Revenues were also higher at Armstrong, but primarily because of final quarter media purchases, which are primarily flow through revenues. Revenues were largely consistent with prior years at Gemma, IC Group and S&E. Gemma reported strong revenues in the first half of the year, and has done well in the second half to replace reducing revenues at financial services clients. IC Group struggled in the first half of the year to replace revenues lost from US based clients, but had a strong second half with new loyalty programs. S&E has made some progress in 2008 but retainer fees have been below expectations.

(II) GROSS PROFIT

For the year ended December 31, 2008, gross profit for the Marketing segment was $35,855 and gross profit margin was 38.1%. For the comparative year ended December 31, 2007, gross profit was $33,998 and gross profit margin was 39.2%. Gross margins at Capital C and IC Group were largely in line with prior years. Gemma, despite revenue challenges, has been able to improve margins through operating efficiencies. S&E's margins have been gradually improving as the business model moves more to consulting fee based. The drop in consumer spending has impacted Armstrong's client base, resulting in lower work volumes and client price pressure.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2008 were $20,642 compared to $19,428 in 2007. These expenses as a percentage of revenues were 22.0% compared to 22.4% in 2007. These expenses were largely in line with the previous year. Rationalization of expenses at Armstrong during the year were offset by higher business development expenses, particularly in the first half of the year, at IC Group.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $7,742 for the year ended December 31, 2008, compared with $8,128 in 2007. The largest component of this expense is the amortization of intangible assets, which is recorded as investments are made in Operating Partnerships.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During the third and fourth quarters of 2008, write-downs of goodwill and intangible assets in the amount of $15,063 were recorded relating to the Fund's investment in Armstrong and S&E. In 2007, write-downs of goodwill and intangible assets in the amount of $2,987 were recorded relating to the Fund's investment in S&E. See Section "Goodwill and Intangible Assets".

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $15,256 for the year ended December 31, 2008 compared to $14,570 in 2007.

(VII) INCOME TAX

As discussed in the section on Future Income Taxes, the enactment in June 2007 of Bill C-52 resulted in a requirement to record a future tax expense in June 2007 related to temporary differences, which will reverse after 2010, between the accounting and tax basis of the Fund's net assets.

In 2008, the Fund recorded the write-down in its carrying value of intangibles. This resulted in a recording of future income tax recovery. Also, due to the Fund suspending distributions in late 2008, it is expected that in future periods the Fund will be subject to income tax on its taxable income. The Fund is, therefore, required to record a future tax liability related to timing differences that are expected to reverse between 2008-2010, and for which there was no future tax liability recorded in 2007. The future tax recovery for 2008 was $2,518 compared with a future tax expense of $6,224 in 2007.

(VIII) LOSS

The loss for the year was $(5,359) compared to a loss of $(3,078) in 2007.

INDUSTRIAL SERVICES

The Industrial Services segment includes the Fund's proportionate share of the results of NPC and Quantum Murray.

NPC	-	Provides oil & gas maintenance, construction and wear technology services to both the conventional oil and gas industry and to the oil sands
Quantum Murray	-	National provider of demolition, remediation and scrap metal services

Summary Financial Table ($000s)

	YEAR ENDED DECEMBER 31		
	2009	2008	2007
Revenues	$ 397,525	$ 438,781	$ 296,943
Cost of revenues	(322,001)	(351,873)	(234,248)
Gross profit	$ 75,524	$ 86,908	$ 62,695
Selling, general and administrative expenses	(50,481)	(57,072)	(33,804)
Amortization expense	(8,418)	(13,448)	(10,532)
Depreciation expense	(10,680)	(8,930)	(5,719)
Interest expense	(8,707)	(9,454)	(4,867)
Write-down of goodwill and intangible assets	(18,640)	(39,994)	-
Income tax expense-current	-	(6)	-
Income tax (expense) recovery -future	4,364	(182)	(674)
Income (loss) for the year	$ (17,038)	$ (42,178)	$ 7,099
Add:			
Amortization	8,418	13,448	10,532
Depreciation[1]	10,680	9,049	5,719
Interest expense	8,707	9,454	4,867
Income tax expense - current	-	6	-
Income tax expense (recovery) -future	(4,364)	182	674
EBITDA	$ 6,403	$ (10,039)	$ 28,891
Write-down of goodwill and intangible assets	18,640	39,994	-
Adjusted EBITDA	$ 25,043	$ 29,955	$ 28,891

1 Depreciation of $nil relating to production equipment has been included in cost of revenues for the year ended December 31, 2009 (2008 - $119; 2007 - $nil).

	YEAR ENDED DECEMBER 31					
	2009		2008		2007	
	NPC	QUANTUM MURRAY	NPC	QUANTUM MURRAY	NPC	QUANTUM MURRAY
Revenues	$ 255,159	$ 142,366	$ 294,963	$ 143,818	$ 186,695	$ 110,248
Cost of revenues	(206,798)	(115,203)	(242,175)	(109,698)	(156,720)	(77,528)
Gross profit	$ 48,361	$ 27,163	$ 52,788	$ 34,120	$ 29,975	$ 32,720
Selling, general and administrative expenses	(28,883)	(21,598)	(30,841)	(26,231)	(14,036)	(19,768)
Amortization expense	(5,291)	(3,127)	(6,326)	(7,122)	(4,102)	(6,430)
Depreciation expense	(5,964)	(4,716)	(5,970)	(2,960)	(3,998)	(1,721)
Interest expense	(8,222)	(485)	(9,118)	(336)	(4,692)	(175)
Write-down of goodwill and intangible assets	(17,573)	(1,067)	(25,283)	(14,711)	-	-
Income tax expense -current	-	-	(6)	-	-	-
Income tax (expense) recovery -future	2,112	2,253	1,151	(1,333)	320	(994)
Income (loss) for the year	$ (15,460)	$ (1,578)	$ (23,605)	$ (18,573)	$ 3,467	$ 3,632
Add:						
Amortization	5,291	3,127	6,326	7,122	4,102	6,430
Depreciation	5,965	4,716	6,089	2,960	3,998	1,721
Interest expense	8,222	485	9,118	336	4,692	175
Income tax expense - current	-	-	6	-	-	-
Income tax expense (recovery) -future	(2,112)	(2,252)	(1,151)	1,333	(320)	994
EBITDA	$ 1,905	$ 4,498	$ (3,217)	$ (6,822)	$ 15,939	$ 12,952
Write-down of goodwill and intangible assets	17,573	1,067	25,283	14,711	-	-
Adjusted EBITDA	$ 19,478	$ 5,565	$ 22,066	$ 7,889	$ 15,939	$ 12,952

2009 RESULTS COMPARED TO 2008

(I) REVENUES

Revenues from the Industrial Services segment were $397,525 compared with $438,781 in 2008, a decrease of 9.4%

NPC's revenues for the year reflect increased revenues from the oil sands services divisions compared to a year ago, but these increases are offset by lower demand for conventional oil and gas services. The oil sands divisions have benefited from increased volumes in the wear technology divisions which are operating at capacity. Demand for maintenance and labour supply activities in the oil sands sector improved as the year progressed with levels returning to historical levels in the fourth quarter. With limited exceptions, the conventional oil and gas services divisions are experiencing reduced volumes across the board, and are unlikely to see a return to previous levels while gas prices remain depressed.

Quantum Murray's revenues for the year on a divisional basis were mixed. The remediation division benefited throughout the year from one large project for the Ontario Ministry of the Environment. This project was completed in December 2009. In addition, the remediation division's results include revenues from two Arctic projects for the Canadian government. Conversely, the demolition and metals divisions revenues were below prior year levels. The demolition division's revenues are significantly reduced as this division continues to experience reduced volumes as larger industrial demolition projects remain on hold, and smaller commercial projects are aggressively priced. The demolition division has been most impacted by the economic downturn and its impact on the construction, auto, steel and petro-chemical industries. The metal division had a difficult year as scrap prices fluctuated and industrial and demolition scrap volumes were down.

(II) GROSS PROFIT

Gross profit was $75,524 for the year ended December 31, 2009 compared with $86,908 in 2008. Gross profit margins were 19.0% compared to 19.7% in 2008. Gross margins were higher at NPC but are reduced at Quantum Murray compared to a year ago.

NPC's gross margin improvement reflects the contribution of its oil sands wear technology divisions. This has more than offset margin compression in its maintenance divisions where there is fierce competition for a declining amount of work. In addition, these divisions experienced losses early in the year from project cost overruns. Steps were taken during the year to improve the focus and discipline around project management which has shown positive results.

At Quantum Murray gross margins are under pressure in all three divisions compared to a year ago. Larger industrial projects, where margins have historically been strong, are currently on the shelf, and this impacts both the demolition and scrap metals divisions. Also, margins were impacted in the demolition division in the first quarter from cost overruns, and in the metals division margins were compressed as competition for buying scrap metal increased direct costs.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $50,481 for the year ended December 31, 2009 compared to $57,072 in 2008. These expenses as a percentage of revenues were 12.7%, reduced from 13.0% in 2008. Expenses at NPC have been reduced, particularly in the conventional divisions where revenues have been significantly reduced, and further cost savings initiatives are being explored. Expenses at Quantum Murray have been reduced from a year ago, primarily at the demolition division where headcount and truck fleets have been reduced.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $19,098 for the year ended December 31, 2009 compared with $22,378 in 2008. The largest component of this expense is the amortization of intangible assets, which were recorded as investments were made in Operating Partnerships.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During 2009, write-downs of goodwill and intangibles assets in the amount of $18,640 were recorded relating to the Fund's investments in both NPC and Quantum Murray compared to $39,994 in 2008. See section "Goodwill and Intangibles Write-downs".

(VI) ADJUSTED EBITDA

The Industrial Services segment produced $6,403 of EBITDA for the year ended December 31, 2009, compared with $(10,039) of EBITDA earned in 2008 reflecting higher intangible asset write-downs in 2008. Adjusted EBITDA for the year ended December 31, 2009 was $25,043 compared to $29,955 in 2008.

(VII) INCOME TAX

The future tax recovery relating to the assets of the Industrial Services segment was $4,364 for the year ended December 31, 2009 compared to a future tax expense of $182 in 2008.

Current taxes for the year ended December 31, 2009 were $nil compared to $6 for 2008.

Please see a discussion on income taxes in the section on Future Income Taxes.

(VIII) LOSS

Net loss for the year ended December 31, 2009 was $(17,038) compared to a net loss of $(42,178) in 2008.

(IX) SEASONALITY

NPC's revenues and profits are impacted by seasonality and weather conditions. For example, severe winter conditions and excessively rainy periods can delay equipment moves and thereby adversely affect revenues. Spring break-up typically occurs in March and April leaving many roads temporarily incapable of supporting heavy equipment travel, thereby negatively impacting NPC's business.

Quantum Murray's remediation activity can be reduced in the winter months, depending on assignment location and weather. In addition, due to the timing of large contracts, quarterly results can fluctuate.

(X) OUTLOOK

NPC expects the strong demand for its specialty wear technology services to continue. The operating divisions focusing on conventional gas, and construction and fabrication divisions will be slow to return to prior year levels while oil and gas prices remain low. There is some optimism that with the announcement of four large oil sands projects, there will be increased demand for fabrication work.

Quantum Murray's outlook is mixed. With the signs of an economic recovery the industrial demolition division should see increased activity. It is unlikely the remediation division will secure another project similar to the magnitude of the 2009 project from the Ontario Ministry of the Environment, however many projects are in the pipeline. The Metals division outlook will largely be dependant on the recovery of industrial activity in Ontario.

2008 RESULTS COMPARED TO 2007

(I) REVENUES

Revenues from the Industrial Services segment were $438,781 for the year ended December 31, 2008 compared with $296,943 in 2007. This reflects a 47.8% increase over the previous year. Revenue growth is from a combination of organic growth, and the inclusion of a full year of revenues in 2008 from investments made during 2007.

NPC's revenues on its conventional oil and gas services business increased over 2007. This was despite a significant reduction in construction services revenues. Volatile commodity prices typically have had an indirect and limited impact on conventional maintenance service providers. Since the significant drop in oil prices, sustained low commodity prices have caused delays or postponements of construction projects, and have also caused increased competition within the maintenance sector as construction service businesses attempt to replace lost revenues by entering the maintenance service business. The oil sands services division has a more diverse services offering and therefore is less impacted by low oil prices. While its construction services have also been impacted this year, all other service areas, including trucking, maintenance and wear technology services have been very active, and all have shown considerable growth over the previous year.

Quantum Murray reported revenues above those of 2007 despite finishing the year in a very challenging economy. In 2008, the results of the demolition and metals divisions were severely impacted by reducing scrap metal revenues as commodity prices declined significantly. In addition, a slowing economy signalled delays and postponements of industrial demolition projects, and there was also intensified competitive pressures on the fewer commercial projects being brought to market. Revenue challenges at these divisions was more than offset by a strong revenue performance from the Environmental division which generated better than expected results, in part due to work secured in the Arctic, and strong activity in BC and Alberta.

(II) GROSS PROFIT

Gross profit was $86,908 for the year ended December 31, 2008 compared with $62,695 in 2007. Gross profit margins were 19.8% compared to 21.1% in 2007. The conventional maintenance services business of NPC experienced increase competition and pricing pressure. The oil sands division had a better experience due to stronger demand for its higher margin wear technology services.

Based on first half results, it was looking as if Quantum Murray would report record results, but from the third quarter gross margins were significantly impacted by the drop in scrap metal prices. The unprecedented commodity price declines in the late summer surprised many industry participants. The impact on the metals division was twofold, with declining margins on sales, and write-downs of inventories on hand. In addition, the demolition division was working on a number of projects where the scrap metal revenue component was very high, resulting in significant reserves being taken on these projects against anticipated revenues.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $57,072 for the year ended December 31, 2008, compared to $33,804 in 2007. The dollar increase is largely attributable to the fact that 2007 includes only five months of the results of Golosky. These expenses as a percentage of revenues increased to 13.0% for the year ended December 31, 2008, compared to 11.4% in 2007. Integration of operations took longer than expected.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $22,378 for the year ended December 31, 2008, compared with $16,251 in 2007. The largest component of this expense is the amortization of intangible assets which is recorded as investments are made in Operating Partnerships.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During the fourth quarter of 2008, write-downs of goodwill and intangible assets in the amount of $39,994 were recorded relating to the Fund's investments in both NPC and Quantum Murray. There were no write-downs of goodwill and intangible assets in 2007. See Section "Goodwill and Intangible Assets".

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $29,955 for the year ended December 31, 2008 compared to $28,891 in 2007.

(VII) INCOME TAX

As discussed in the section on Future Income Taxes, the enactment in June 2007 of Bill C-52 resulted in a requirement to record a future tax expense in June 2007 related to temporary differences, which will reverse after 2010, between the accounting and tax basis of the Fund's net assets.

In 2008, the Fund recorded the write-down in its carrying value of intangibles. This resulted in a future income tax recovery. Also, due to the Fund suspending distributions in late 2008, it is expected that in future periods the Fund will be subject to income tax on its taxable income. The Fund is, therefore, required to record a future tax liability related to timing differences that are expected to reverse between 2008-2010, and for which there was no future tax liability recorded in 2007. The future tax expense for 2008 was $182 compared with a future tax expense of $674 in 2007.

(VIII) INCOME (LOSS)

Loss for the year was $(42,178) compared to income of $7,099 in 2007.

OTHER

The Other segment includes the Fund's proportionate share of the results of Rlogistics, Peerless, Titan and Gusgo.

Peerless	-	Supplier of garments to the Canadian military
Titan	-	Manufacturer and distributor of rigging products, rigging services and ground engaging tools
Gusgo	-	Provider of container transportation and storage services
Rlogistics	-	Reseller of close-out, discount and refurbished consumer electronic and household goods

Summary Financial Table ($000s)

	YEAR ENDED DECEMBER 31		
	2009	**2008**	**2007**
Revenues	$ 71,159	$ 85,534	$ 93,015
Cost of revenues	(50,454)	(61,496)	(68,742)
Gross profit	$ 20,705	$ 24,038	$ 24,273
Selling, general and administrative expenses	(10,958)	(13,238)	(13,437)
Amortization expense	(7,353)	(6,829)	(6,870)
Depreciation expense	(728)	(596)	(704)
Income from equity investments	1,110	1,471	1,307
Interest expense	(923)	(1,486)	(2,427)
Write-down of goodwill and intangible assets	(7,554)	(12,786)	-
Income tax recovery (expense) - future	1,633	1,607	(7,164)
Loss for the year	$ (4,068)	$ (7,819)	$ (5,022)
Add:			
Amortization	7,353	6,829	6,870
Depreciation[1]	810	689	704
Interest expense	923	1,486	2,427
Income tax (recovery) expense - future	(1,633)	(1,607)	7,164
EBITDA	$ 3,385	$ (422)	$ 12,143
Write-down of goodwill and intangible assets	7,554	12,786	-
Adjusted EBITDA	$ 10,939	$ 12,364	$ 12,143

1 Depreciation of $82 relating to production equipment has been included in cost of revenues (2008 - $93; 2007 - $nil).

2009 RESULTS COMPARED TO 2008

(I) REVENUES

Revenues for the Other segment were $71,159 for the year ended December 31, 2009, compared to $85,534 in 2008 a decrease of 16.8%.

The majority of the decline in revenue relates to Titan. Throughout 2009, Titan has been challenged by the difficult economy in Alberta. Slower construction and drilling activity has resulted in revenue reductions across all product lines compared to prior year. Peerless' revenues were higher than prior year as a result of full production on two large government contracts that were awarded in late 2008. Gusgo's revenues were below prior year, a reflection of the recession and its impact on the transportation industry. Some of the decrease was offset by storage services revenues.

(II) GROSS PROFIT

Gross profit was $20,705 for the year ended December 31, 2009, compared with $24,038 for 2008. Gross profit margins were 29.1%, compared to 28.1% in 2008.

With Titan's decline in revenue as well as competitive pressure on margins, gross profit and margins significantly decreased from a year ago.

As production ramped up at Peerless on the two large government contracts, production efficiencies were achieved and gross margins were strengthened as the year progressed.

Gusgo was able to maintain margins despite competitive pressure in the transportation sector.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $10,958 for the year ended December 31, 2009, compared with $13,238 for 2008. These expenses as a percentage of revenues were 15.4%, compared to 15.5% in 2008. The reduction in these expenses is attributable to Titan. Significant cost controls were implemented throughout the year to offset the decline in revenues.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $8,081 for the year ended December 31, 2009, compared to $7,425 in 2008. The largest component of this expense is the amortization of intangible assets, which were recorded as investments were made in Operating Partnerships.

(V) WRITE-DOWN OF INTANGIBLES

As at December 31, 2009, write-downs of intangible assets in the amount of $7,554 relating to the Titan and Gusgo investments were recorded compared to $12,786 in 2008. See section "Goodwill and Intangible Write-downs".

(VI) ADJUSTED EBITDA

Adjusted EBITDA after adding back goodwill and intangible write-offs for this segment was $10,939 compared with $12,364 in 2008. EBITDA includes the income from the Fund's equity investment in Rlogistics of $1,110 compared to $1,471 in the prior year.

(VII) INCOME TAXES

The future tax recovery relating to the assets of Other segment was $1,633 for the year ended December 31, 2009, compared to $1,607 in 2008.

For a description of these changes see Income Taxes below.

(VIII) LOSS

Loss for the year ended December 31, 2009 was $(4,068) compared to $(7,819) in 2008.

(IX) SEASONALITY

Peerless' business is not subject to material seasonal variance. However, due to the timing of large government contracts, annual revenues and EBITDA can sometimes fluctuate significantly.

Titan's business is positively impacted by severe cold and harsh weather conditions that create increased demand for replacement parts on heavy equipment and snow-removal related products. The first and fourth quarters have historically been the strongest.

Seasonality is not typically a material factor for Gusgo.

(X) OUTLOOK

Peerless will continue to benefit from the two Ministry of Defence contracts well into 2010. Since Peerless' revenue is dependant on the awarding of government contracts it is difficult to predict the timing of new contracts.

There is cautious optimism that Titan will have a stronger upcoming year. Drilling activity is expected to slowly increase and upcoming oil sands projects should translate into improved revenues for Titan.

As the economy recovers, Gusgo should see revenues return in time to prior year levels as it has a solid client base.

2008 RESULTS COMPARED TO 2007

(I) REVENUES

Revenues from this segment were $85,534 for the year ended December 31, 2008 compared with $93,015 in 2007. This represents a decrease of 8.0%. This decrease can be attributed to the results of Peerless which were impacted throughout 2008 by delays in the awarding of federal government contracts on which it had bid. Peerless manufactures outerwear for the Canadian military but its revenue levels are dependent on the timing of the release of contracts. Gusgo experienced some US based client loss at the beginning of the year. The slowing economy also led to a contraction in its transportation business but Gusgo was largely able to replace reducing revenues through offering storage services to its client base, resulting in revenues at a similar level to 2007. Titan is a distributor of drilling products to the oil and gas industry, and of ground engaging tools to the transportation and construction industries. Slower construction activity impacted revenues and slow drilling activity in the first half of 2008 negatively impacted Titan revenues. There was some improvement in the second half of 2008, resulting in Titan's revenues ending the year at levels similar to 2007.

(II) GROSS PROFIT

Gross profit was $24,038 for the year ended December 31, 2008 compared with $24,273 in 2007. Gross profit margins were 28.1%, compared to 26.1% a year ago. The improvement in gross margin came from both Peerless and Gusgo. Improved operational efficiencies underline Peerless' performance in 2008, and Gusgo benefited from higher margin revenues from storage services which were introduced in 2008. Titan's margins were slightly reduced from a year ago reflecting product mix variation.

(III) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $13,238 for the year ended December 31, 2008 compared with $13,437 in 2007. These expenses as a percentage of revenues were 15.5%, compared to 14.4% in 2007.

(IV) DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $7,425 for the year ended December 31, 2008, compared to $7,574 in 2007. The largest component of this expense is the amortization of intangible assets, which is recorded as investments are made in Operating Partnerships.

(V) WRITE-DOWN OF GOODWILL AND INTANGIBLES

During the third and fourth quarters of 2008, write-downs of goodwill and intangible assets in the amount of $12,786 were recorded relating to the Fund's investment in Titan. There were no write-downs of intangible assets in 2007. See Section "Goodwill and Intangible Assets".

(VI) ADJUSTED EBITDA

Adjusted EBITDA was $12,364 for the year ended December 31, 2008 compared to $12,143 in 2007.

(VII) INCOME TAX

As discussed in the section on Future Income Taxes, the enactment in June 2007 of Bill C-52 resulted in a requirement to record a future tax expense in June 2007 related to temporary differences, which will reverse after 2010, between the accounting and tax basis of the Fund's net assets.

In 2008, the Fund recorded the write-down in its carrying value of intangibles. This resulted in a future income tax recovery. Also, due to the Fund suspending distributions in late 2008, it is expected that in future periods the Fund will be subject to income tax on its taxable income. The Fund is, therefore, required to record a future tax liability related to timing differences that are expected to reverse between 2008-2010, and for which there was no future tax liability recorded in 2007. The future tax recovery for 2008 was $1,607 compared with a future tax expense of $7,164 in 2007.

(VIII) LOSS

The loss for the year was $(7,819) compared to a loss of $(5,022) in 2007.

CORPORATE

The Corporate segment includes head office administrative and legal costs, as well as interest costs.

Summary Financial Table ($000s)

	YEAR ENDED DECEMBER 31		
	2009	**2008**	**2007**
Selling, general and administrative expenses	$ (12,803)	$ (6,808)	$ (6,009)
Depreciation expense	(119)	(127)	-
Interest expense	(30,768)	(30,021)	(23,437)
Write-down of goodwill	(3,567)	(85,940)	-
Loss on dilution of ownership interest	-	(845)	(6,958)
Income tax expense-current	(18)	-	(4)
Income tax (expense) recovery-future	2,676	628	(49)
Loss for the year	$ (44,599)	$ (123,113)	$ (36,457)
Add:			
Depreciation expense	119	127	-
Interest expense	30,768	30,021	23,437
Income tax expense – current	18	-	4
Income tax expense (recovery)-future	(2,676)	(628)	49
EBITDA	$ (16,370)	$ (93,593)	$ (12,967)
Loss on dilution of ownership interest	-	845	6,958
Write-down of goodwill	3,567	85,940	-
Adjusted EBITDA	$ (12,803)	$ (6,808)	$ (6,009)

2009 RESULTS COMPARED TO 2008

(I) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $12,803 for the year ended December 31, 2009, compared to $6,808 for 2008. The increase over the prior year can be broken into five components. The cost of securing the Forbearance Agreement was approximately $1,000 and includes legal and accounting costs of the Fund and the Senior Lenders. Approximately $1,000 related to severance and associated costs of ex-employees. Additional legal costs were incurred relating to review of conversion to a corporation, other corporate initiatives, lawsuits and general corporate matters, and account for approximately $1,000 of the increase. Additional corporate advisory services accounted for $900 of the increase, and, finally, an approximate $2,100 of the increase relates to additional salary and travel costs associated with the new, expanded senior management team. This team has been in place for most of 2009, and increased travel costs reflect the commitment to a greater operational focus with our investments.

(II) INTEREST EXPENSE

Interest expense was $30,768 for the year ended December 31, 2009 compared to $30,021 for 2008. Interest expense relates to the Senior Credit Agreement, the revolving line of credit and the Debentures. The Fund has accrued interest expense of $11,938 on the Debentures but is contractually prohibited from paying it under the Forbearance Agreement with its senior lender. While debt levels have been reduced by repayments of $100 million in the last quarter of the year, interest expense is at a similar level to 2008 as the current year includes $3,501 of default interest and $1,850 of forbearance fees.

(III) INCOME TAX EXPENSE

The future tax recovery relating to assets of the Corporate segment was $2,676 for the year ended December 31, 2009, compared to $628 in 2008. Current tax expense for the year was $18 compared to $nil in 2008.

Please see a discussion on income taxes in the section on Income Taxes.

(IV) LOSS

The loss for the year ended December 31, 2009 was $(44,599), compared to $(123,113) for 2008. The decreased loss reflects higher intangible and goodwill write-downs in 2008.

(V) OUTLOOK

Selling, general and administrative expenses are expected to remain at levels similar to those of 2009 as higher operational and restructuring costs continue to be incurred. The Fund's level of interest expense will be dependent upon the outcome of its efforts to restructure its balance sheet.

2008 RESULTS COMPARED TO 2007

(I) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $6,808 for the year ended December 31, 2008. This compares to $6,009 for 2007. Expenses in 2008 were higher than 2007 as expenses include legal and other costs associated with transactions that did not close in 2008.

(II) INTEREST EXPENSE

Interest expense of $30,021 for the year ended December 31, 2008, relates to the credit facility and the convertible debentures. This compares to $23,437 in 2007, and the increased interest expense reflects higher average balances outstanding during 2008, and the write-off of deferred financing charges related to the credit facility, now shown as a current liability. Non-cash amounts included in interest expense were $8,345 (2007 - $2,797).

(III) ADJUSTED EBITDA

Adjusted EBITDA was a loss of $6,808 for the year ended December 31, 2008 compared to a loss of $6,009 in 2007.

(IV) INCOME TAX

As discussed in the section on Future Income Taxes, the enactment in June 2007 of Bill C-52 resulted in a requirement to record a future tax expense in June 2007 related to temporary differences, which will reverse after 2010, between the accounting and tax basis of the Fund's net assets.

In 2008, the Fund recorded the write-down in its carrying value of goodwill, which did not result in a tax recovery. This resulted in future income taxes. Also, due to the Fund suspending distributions in late 2008, it is expected that in future periods the Fund will be subject to income tax on its taxable income. The Fund is, therefore, required to record a future tax liability related to timing differences that are expected to reverse between 2008-2010, and for which there was no future tax liability recorded in 2007. The future tax recovery for 2008 was $628 and a future tax expense of $49 for 2007.

(V) LOSS

The loss for the year was ($123,113) compared to ($36,457) in 2007.

DISCONTINUED OPERATIONS

On October 1, 2009, the Fund sold 100% of its investment in Elliot Special Risks LP ("ESR") for net proceeds of $74,614, resulting in an accounting gain of approximately $31,000, which is included in income (loss) from discontinued operations.

On September 30, 2008, the Fund sold 100% of the assets of its investment in ATM LP ("Ezee"). The investment was sold for net proceeds of $30,710 resulting in a loss of $6,848, which is included in income (loss) from discontinued operations.

The following table shows the revenue and net income/(loss) from discontinued operations of ESR and Ezee for the years ended December 31, 2009 and 2008.

Condensed Income Statement Information ($000s)

Year ended December 31			2009			2008
	ESR	Ezee	Total	ESR	Ezee	Total
Revenues	$ 14,502	-	$ 14,502	$ 17,011	$ 29,975	$ 46,986
Net income (loss)	$ 32,528	-	$ 32,528	$ (20,202)	$ (5,109)	$ (25,311)

The balance sheet of ESR at December 31, 2008 has been categorized as assets and liabilities of discontinued operations. The components of these items are as follows:

Balance Sheet Information ($000s)

	DECEMBER 31, 2008
Current assets of discontinued operations	$ 20,554
Long-term assets of discontinued operations	45,009
Current liabilities of discontinued operations	20,797
Long-term liabilities of discontinued operations	5,087
Net assets of discontinued operations	39,679

FOURTH QUARTER 2009 PERFORMANCE

Summary Financial Table – (segmented) ($000s except per unit amounts)
THREE MONTHS ENDED DECEMBER 31, 2009

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES	OTHER	CORPORATE[1]	TOTAL
Revenue	$ 7,139	$ 21,458	$ 98,931	$ 17,199	$ -	$ 144,727
Gross profit	$ 4,483	$ 8,160	$ 22,665	$ 4,987	$ -	$ 40,295
Loss from continuing operations before non-controlling interest	$ (3,681)	$ (464)	$ (13,020)	$ (1,392)	$ (12,681)	$ (31,238)
EBITDA	$ (5,980)	$ 2,289	$ (9,210)	$ 2,339	$ (3,826)	$ (14,388)
Write-down of goodwill and intangible assets	7,038	1,273	18,640	347	8	27,306
Adjusted EBITDA	$ 1,058	$ 3,562	$ 9,430	$ 2,686	$ (3,818)	$ 12,918
Interest income (expense)[2]	35	(69)	(724)	(220)	(7,778)	(8,756)
Non-cash interest expense	-	-	-	-	893	893
Income tax (expense) recovery-current	(4)	-	-	-	16	12
Maintenance capital expenditures and reserves	(323)	(188)	1,062	(55)	-	496
Capital lease payments	-	(140)	(1,955)	(52)	-	(2,147)
Priority income per partnership agreement[4]	-	-	-	79	-	79
Distributable cash from continuing operations	$ 766	$ 3,165	$ 7,813	$ 2,438	$ (10,687)	$ 3,495
Cash from discontinued operations						-
Distributable cash retained by the Fund[5]						$ 3,495

Summary Financial Table – (segmented) ($000s except per unit amounts)
THREE MONTHS ENDED DECEMBER 31, 2008

	FINANCIAL SERVICES	MARKETING	INDUSTRIAL SERVICES	OTHER	CORPORATE[1]	TOTAL
Revenue	$ 8,148	$ 26,777	$ 111,066	$ 23,560	$ -	$ 169,551
Gross profit	$ 5,236	$ 9,823	$ 18,203	$ 6,524	$ -	$ 39,786
Loss from continuing operations before non-controlling interest	$ (75,431)	$ (1,482)	$ (44,473)	$ (6,532)	$ (98,991)	$ (226,909)
EBITDA	$ (81,797)	$ (1,306)	$ (35,923)	$ (4,788)	$ (88,840)	$ (212,654)
Loss on dilution of ownership interest	-	-	-	-	845	845
Write-down of goodwill and intangible assets	77,516	6,128	39,994	8,735	85,940	218,313
Impairment of long-term investment	7,000	-	-	-	-	7,000
Adjusted EBITDA	$ 2,719	$ 4,822	$ 4,071	$ 3,947	$ (2,055)	$ 13,504
Interest income (expense)[2]	61	(69)	(481)	(300)	(12,617)	(13,406)
Non-cash interest expense	-	-	-	-	5,176	5,176
Income tax (expense) recovery-current	(9)	(19)	-	-	17	(11)
Maintenance capital expenditures and reserves	(263)	(372)	(2,138)	(150)	4	(2,919)
Capital lease payments	(2)	(34)	(904)	(66)	-	(1,006)
Distribution expensed[3]	-	(400)	-	-	-	(400)
Priority income per partnership agreement[4]	68	29	(1,586)	(137)	-	(1,626)
Distributable cash from continuing operations	$ 2,574	$ 3,957	$ (1,038)	$ 3,294	$ (9,475)	$ (688)
Cash from discontinued operations						3,167
Distributable cash retained by the Fund[5]						$ 2,479

1 The results of the Corporate segment include corporate costs and corporate interest expense.

2 NPF advanced approximately $60,000 to NPC to allow it to complete its investment in Golosky on July 31, 2007. This long-term facility can be converted into equity, if certain future performance criteria are met, and in anticipation of the triggering targets being met, and also in order to remove the financing component from the operating results of NPC, interest expense of NPC, and the Industrial Services segment in this Summary Financial table has been reduced by $1,519 and such amount has been added to the interest expense of the Corporate segment (2008 - $1,577).

3 Management of Gemma has the option to receive its distributions as bonuses. Where this option is chosen, an adjustment is required to calculate the distributable cash to the Fund.

4 To the extent that in any reporting period, calculated on a cumulative basis, the Fund's proportionate share of distributable cash is more or less than its priority amount, an adjustment to distributable cash is made to reflect the actual cash distributions payable to the Fund by the Operating Partnership.

5 As there were no distributions made during the current or prior year quarter, distributable cash per unit information has not been provided.

Summary Results from Continuing Operations ($000s)

	QUARTER ENDED DECEMBER 31	
	2009	**2008**
Revenues	$ 144,727	$ 169,551
Cost of revenues	(104,432)	(129,766)
Gross profit	$ 40,295	$ 39,786
Selling, general and administrative expenses	(27,928)	(26,893)
Amortization expense	(6,914)	(8,773)
Depreciation expense	(4,295)	(3,225)
Income from equity investments	245	104
Interest expense	(8,758)	(13,406)
Loss on dilution of interest in operating partnership	-	(845)
Write-down of goodwill and intangible assets	(27,306)	(218,313)
Impairment of long- term investment	-	(7,000)
Income tax expense (recovery)-current	12	(11)
Income tax recovery-future	3,411	11,667
Loss from continuing operations	$ (31,238)	$ (226,909)
Loss for the period	$ (31,238)	$ (226,909)
Add:		
Amortization	6,914	8,773
Depreciation[1]	4,315	3,248
Amortization of Brompton intangible assets	286	484
Interest expense	8,758	13,406
Income tax expense/(recovery)-current	(12)	11
Income tax recovery-future	(3,411)	(11,667)
EBITDA	$ (14,388)	$ (212,654)
Loss on dilution of ownership interest	-	845
Write-down of goodwill and intangible assets	27,306	218,313
Impairment of long-term investment	-	7,000
Adjusted EBITDA	$ 12,918	$ 13,504

1 Depreciation of $20 relating to production equipment has been included in cost of revenues (2008 - $23).

FOURTH QUARTER RESULTS COMMENTARY

The Fund's continuing operations from its portfolio investments are reported in its four operating segments: Financial Services, Marketing, Industrial Services and Other. Revenues for the three months ended December 31, 2009 were $144,727 compared to $169,551 in the corresponding 2008 period, a decrease of 14.6%.

Gross profit for the three months ended December 31, 2009 was $40,295 compared to $39,786 in 2008, an increase of 1.3%. Gross margins were 27.8% for the three months ended December 31, 2009 compared to 23.5% in the 2008 period. The main contributor to the improved gross margin percentage was NPC.

For the three months ended December 31, 2009, these four operating segments produced $16,736 of adjusted EBITDA for the Fund compared to $15,559 in 2008.

The five largest contributors to adjusted EBITDA in the portfolio for the three months ended December 31, 2009 were NPC, Capital C, Quantum Murray, Peerless, and Morrison Williams.

NPC's financial results were strong for the final quarter. Oil sands maintenance and labour supply services saw some strengthening in the quarter and specialty wear technology services of the oil sands operations produced excellent results.

Capital C had a very strong quarter with revenues reflecting a strong pick up from clients who had delayed or deferred marketing expenditures earlier in the year. In addition, the Kenna division reported strong results from its core digital and CRM services.

Quantum Murray's results for the quarter were mixed. The environmental division performed well as it completed a large remediation project but the demolition and metals divisions continue to be impacted by the lack of larger industrial demolition projects.

Peerless produced its best quarter of the year through a combination of full production on two large federal contracts and production efficiencies.

Morrison Williams' results were as expected for the quarter. The strengthening of the equity markets in the quarter increased asset values, which were offset by mutual fund redemptions and client rebalancing of portfolios.

Financial performances were mixed at the remaining marketing investments. IC Group benefited from good revenues from online loyalty programs but is incurring more costs to support its clients. Both Gemma and Armstrong experienced client reductions, although S&E had strong consulting revenues.

The Fund's fourth quarter results from Brompton and NP LP were as expected although the latter was impacted by restructuring costs. 2009 has been a tough year for our insurance investments and the fourth quarter was no exception. Both were impacted by continuing soft insurance markets, and in particular Hargraft has suffered from client attrition. The back office operations of these investments have been combined which should provide for a more cost effective platform going forward.

Results at both Titan and Gusgo were as expected with both investments suffering from local economic challenges.

See "Fourth Quarter 2009 Performance Summary – by Operating Partnership" for details of Fund EBITDA and distributable cash by individual investment holding.

The Fund's Corporate segment includes administrative costs to operate the Fund, and the interest costs on borrowings to fund investments and working capital of its businesses. Corporate office costs were $3,818 for the three months ended December 31, 2009 compared with $2,055 in 2008. Corporate costs reduced total Adjusted EBITDA to $12,918 for the three months ended December 31, 2009 compared with $13,504 in 2008, a decrease of 4.3%.

The main items which reduce Adjusted EBITDA to arrive at Distributable Cash are interest expense and capital expenditures. During the final quarter, cash interest costs were $7,863, compared with $8,230 in 2008. During the three months ended December 31, 2009, the operating segments had capital expenditures and capital lease payments of $1,651, as compared to $3,925 in the same period in 2008. The majority of these expenditures were incurred in the Industrial Services segments.

Distributable cash from continuing operations for the three months ended December 31, 2009 was $3,495, compared with $2,479 in 2008.

Non-cash items that impacted the results were depreciation and amortization, and future income taxes. Depreciation and amortization was $11,229 for the three months ended December 31, 2009, against $11,998 for 2008. The largest component of this expense is the amortization of intangible assets, which were recorded as investments were made.

During the fourth quarter of 2009, the Fund reviewed the carrying value of all of its investments. As the Fund reviewed its investments, it re-calculated the fair value of tangible assets, intangible assets and goodwill based on current or expected earnings of the businesses. This review resulted in write-downs of goodwill and intangible assets of several investments of $27,306 (2008 - $218,313). In 2008 long-term investments were also written down in the amount of $7,000.

Since 2007 the Fund has been required to record future income tax related to temporary differences at the Fund level. These differences are between the accounting and tax basis of the Fund's net assets, and the majority of the differences relate to intangible assets. As a result of the write-downs of intangible assets in 2009 and 2008, the Fund has recorded future income tax recoveries in the fourth quarter of $3,411, and $11,667, respectively. The future income tax recoveries recorded in 2009 and in 2008 are non-cash items that have no current impact on the Fund's cash from operating activities.

Net loss for the three months ended December 31, 2009 from continuing operations before non-controlling interest was $(31,238) compared to a loss of $(226,909) in 2008.

FOURTH QUARTER 2009 PERFORMANCE SUMMARY – BY OPERATING PARTNERSHIP

OPERATING PARTNERSHIP	ADJUSTED EBITDA ($000s)	DISTRIBUTABLE CASH ($000s)	Q4 YIELD (%) (2)	COMMENTARY
FINANCIAL SERVICES				
Brompton	370	-	-	During the fourth quarter, net AUM increased by approximately $245 million largely as a result of Brompton's appointment as manager of two new funds. Market appreciation of the value of assets held by the Brompton funds was offset by regular annual redemptions in certain funds. Brompton continues to search for and structure new investment products which can be brought to market.
Morrison Williams	1,091	1,091	10.4%	The fourth quarter results for Morrison Williams were as expected. The strengthening of the equity markets in the quarter increased asset values, which were offset by mutual fund redemptions and client rebalancing of portfolios. AUM remained flat from the third to fourth quarter. Management continues to focus on client retention to maintain a stable client base.
NP LP	79	81	1.5%	The fourth quarter was NP LP's strongest revenue quarter of the year. With improved market conditions and additional contributions from new and existing clients, AUM increased 18% compared to the prior year quarter. The insurance services revenues remained strong and were comparable to prior year. Consulting fees were below prior year levels which reflects the reduced levels of corporate advisory assignments. The quarter's results were impacted by one time non-recurring restructuring costs.
Hargraft	(707)[1]	(652)	(14.3%)	Hargraft had another challenging quarter as its client base has been targeted by competition. Hargraft's transportation clients continued with the trend of reducing fleet sizes and applying pressure on premiums. The negative EBITDA for the quarter reflects non-recurring restructuring charges mostly relating to employee severance costs.
BMI	225[1]	246	5.4%	The fourth quarter results reflect the continued competitive commercial insurance market. The competitive pressure on rates as well as the economic contraction continues to impact BMI's commission income. There has been some progress made in growing other business segments with some promise for future quarters.
	1,058	**766**		
MARKETING				
S&E	(71)[1]	(80)	(5.6%)	S&E had a satisfactory quarter with solid revenue and gross margin levels from consulting assignments, which bodes well for 2010. The results for the quarter were impacted by legal fees and performance bonuses.
Gemma	805	636	9.1%	Gemma had a mixed fourth quarter with revenues below expectations due to a significant client reducing its telesales budget. Typically the fourth quarter sees a year end push for telesales as clients ramp up for year end sales objectives. Offsetting some of the telesales decline was an unpredicted increase in inbound volumes which are typically lower during the holiday season.
Capital C	2,114	1,914	31.9%	The fourth quarter was Capital C's strongest of the year. During the first half of the year Capital C found its clients deferring marketing spending in light of the weak economy. There was a surge in business in the last quarter due to the pent up demand for marketing services and clients growing confidence in the economy. Client development efforts also contributed to the successful results as new multi-national clients came on board.
IC Group	552	521	19.3%	The fourth quarter results were mixed as revenues were strong however low margin prizing revenue and a cost overrun on one program resulted in lower margins than previous quarters in the year and the prior year quarter. In addition, the strong Canadian dollar negatively impacted gross margins. Insurance revenues significantly dropped in the fourth quarter. The insurance division has added resources and renewed marketing efforts in order to re-establish successful revenue growth.
Armstrong	162	174	3.5%	Armstrong had a mixed quarter impacted by some clients' reduced annual marketing budgets while new client business offset some of the spending reductions. Clients continue to be cautious with their marketing spending and are applying pricing pressure. Armstrong has been successful in diversifying its product offering from traditional in-store promotional services to providing digital and social media marketing. Armstrong is investing in strategic growth where it believes sustainable competitive advantages exist.
	3,562	**3,165**		

OPERATING PARTNERSHIP	ADJUSTED EBITDA ($000s)	DISTRIBUTABLE CASH ($000s)	Q4 YIELD (%) (2)	COMMENTARY
INDUSTRIAL SERVICES				
NPC	6,668[1]	6,803	30.6%	The fourth quarter results reflected strong revenue and gross margins in some sectors. The wear technology group continued to provide solid margins and significantly increased volumes and the maintenance and labour services volumes were improved over the start of the year. Conversely, the conventional oil and gas services division had lower volumes due to slowdown in most of Alberta's conventional gas exploration and development regions. The fabrication business remained quite slow in the fourth quarter with the year long slowdown in oil sand construction activity. The fourth quarter results reflect one time restructuring charges relating to senior management changes.
Quantum Murray	2,762[1]	1,010	6.2%	The fourth quarter results were mixed as the environmental division had a strong performance while the demolition and metals divisions continued to struggle. The environmental division benefited from the completion of the Ontario Ministry of the Environment project which was increased in scope during the fourth quarter. Low levels of industrial demolition activity continued to impact the demolition division's results. The smaller demolition projects that were completed in the quarter carried low margins. The metals division continued to be challenged by low levels of industrial activity and heavy competition for scrap buying.
	9,430	**7,813**		
OTHER				
Peerless	1,728	1,667	18.5%	Peerless had a strong quarter as it continued to produce garments for the two large Ministry of Defence contracts that were awarded in late 2008/early 2009. Production efficiencies in material consumption contributed to healthy margins. With pre-production and subcontractor issues resolved, the outlook is strong for Peerless as it executes on these two government contracts.
Titan	410[1]	173	2.9%	The fourth quarter was another challenging quarter for Titan as volumes have continued to be significantly below prior years levels. Oil and gas drilling activity in Alberta remains depressed and while the fourth quarter saw slight increases to oil prices that would stimulate the industry, there must be sustained recovery in the Alberta economy before Titan will see full benefits.
Gusgo	343[1]	393	12.6%	The fourth quarter continued to show signs of a slow economic recovery in the transportation industry. Despite Gusgo's ability to retain its clientele, revenues remain below prior year levels due to decreased volumes in container transportation.
Rlogistics	205	205	8.2%	Rlogistics continued to face a very competitive retail environment in the fourth quarter of 2009. Rlogistics has experienced downward pressure on same store sales and has seen an increase in inventory shrinkage in its retail stores.
	2,686	**2,438**		

1 Excludes a write-down of goodwill and intangibles. Refer to the Goodwill and Intangible section for further details.
2 Distributable cash as a percentage (annualized) of weighted, invested capital.

EIGHT QUARTER SUMMARY – ($000S EXCEPT UNIT AMOUNTS)

	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Revenues	$ 144,727	$ 158,213	$ 126,077	$ 155,856	$ 169,551	$ 162,924	$ 170,283	$ 149,960
Gross profit	$ 40,295	$ 39,673	$ 32,138	$ 34,282	$ 39,787	$ 39,223	$ 48,773	$ 41,764
Income (loss) from continuing operations after non-controlling interest	$ (31,483)	$ (11,489)	$ (12,759)	$ (8,855)	$ (234,200)	$ (24,497)	$ 614	$ (3,113)
Net income (loss)	$ (175)	$ (11,986)	$ (10,538)	$ (9,479)	$ (194,959)	$ (28,250)	$ 1,560	$ (2,760)
Adjusted EBITDA from continuing operations	$ 12,919	$ 15,909	$ 7,011	$ 7,865	$ 13,504	$ 14,499	$ 22,085	$ 15,922
Income (loss) per unit from continuing operations	$ (0.44)	$ (0.16)	$ (0.19)	$ (0.18)	$ (4.71)	$ (0.56)	$ 0.00	$ (0.07)
Income (loss) per unit	$ 0.00	$ (0.17)	$ (0.16)	$ (0.19)	$ (4.51)	$ (0.64)	$ 0.02	$ (0.07)

ADDITIONAL INFORMATION

CONTRACTUAL OBLIGATIONS ($000s)

	2010	2011	2012	2013	2014	THEREAFTER	TOTAL
Interest expense	$ 36,211	$ 5,598	$ 5,598	$ -	$ -	$ -	$ 47,406
Long-term debt	150,499	-	-	-	-	-	150,499
Convertible debenture*	164,466	-	-	-	-	-	164,466
Capital lease obligations	5,184	3,720	1,673	523	616	-	11,716
Operating leases	11,408	9,672	7,441	5,156	2,580	3,457	39,714
Total contractual obligations	$ 367,768	$ 18,990	$ 14,712	$ 5,679	$ 3,196	$ 3,457	$ 423,890

*Represents face value of principal amounts, which are classified as a current obligation as in they are currently in default

CONTINGENCIES

LAWSUITS

A Statement of Claim has been filed alleging breach of contract and negligence. NPH signed a letter of intent with a third party to acquire several businesses. The transaction was not completed. The claim is for $630 relating to third party costs relating to the transaction and $38,600 in damages. A statement of defense has been filed. Management is of the opinion that this claim is without merit.

A statement of claim has been filed by the controlling shareholder of the minority unitholder of a subsidiary business and their related companies for an amount of $4,000 plus interest and costs relating to the acquisition of a company. In addition, damages of a further $900 are being claimed by the plaintiff who alleges that the subsidiary business is the rightful owner of this company. Management is assessing this claim but its current view is that the claim is without merit.

A statement of claim has been filed by a minority unitholder of a subsidiary business for damages of $10,000 alleging that the subsidiary business has breached its fiduciary obligations to the unitholder group. Management feels that the claim is without merit, and intends to vigorously defend itself.

A statement of claim has been filed by a former senior employee of a subsidiary business alleging wrongful dismissal. The claim is for an amount of $700 along with such damages as may be proven at trial. Management feels that the claim is without merit and has filed a counter claim of $2,300 including damages.

A statement of claim has been filed by a former employee of the Fund alleging breach of contract, wrongful dismissal, defamation, and intentional interference with economic relations. The claim is for an amount of $6,500. Management feels the claim is without merit, and will vigorously defend itself.

TRANSACTIONS WITH RELATED PARTIES

OWNERSHIP

As of December 31, 2009, directors, officers and employees and entities related to the Fund beneficially hold an aggregate of 16,359,238 units or 22.7% on a fully diluted basis.

TRANSACTIONS

NPY provides funding to the Operating Partnerships to fund working capital requirements. Advances bear interest at the rate of prime plus one percent, are unsecured and are due on demand.

Included in Other Assets are advances of $24.0 million (2008 – $29.1 million) made to the Operating Partnerships.

Selling, general and administrative expenses include $2,803 of rent expense paid to related parties of Quantum Murray, Gusgo and NPC.

NPH has also arranged for a $20 million subordinated facility from an affiliated entity. $10.1 million has been advanced to date in accordance with the Amended Forbearance Agreement.

Employee loans, net of provisions, made to employees of the Fund and its subsidiary NP LP, were outstanding in the amount of $3.5 million (2008 – $4.1 million). In accordance with the terms and conditions of the loans, the loans are interest bearing and used to fund the purchase of units of the Fund or to refinance such purchases and are secured by a pledge of the units.

Mr. Svetkoff, indirectly through Bedford Holdco Inc., a company owned by Mr. Svetkoff, was provided with a loan in December 2008 in the amount of $643 to refinance his third party loan obtained to purchase Fund Units. The loan bears interest at prime, is payable quarterly in arrears, and is secured by a pledge of Fund Units, a general security agreement and a personal guarantee of Mr. Svetkoff and his spouse. Mr. Svetkoff exercises control and direction over the Fund Units owned by Bedford Holdco Inc. Mr. Svetkoff ceased to be an employee of the Newport Group effective August 24, 2009. Mr. Svetkoff's loan became due and payable on August 24, 2009 when he left the employ of Newport Group; the loan is also in default for non-payment of interest. The Fund is currently pursuing recovery of principal and interest

Mr. Holmberg, indirectly through AMI Canada Corporation, a company owned by Mr. Holmberg, was provided with a loan in the amount of $250 to purchase Fund Units in June 2006. The loan bears interest at prime, is payable quarterly, and is secured by a pledge of the Fund Units purchased and a general security agreement. Mr. Holmberg exercises control and direction over the Fund Units owned by AMI Canada Corporation. Mr. Holmberg ceased to be an employee of the Fund effective March 6, 2009. Mr. Holmberg's loan became due and payable on March 6, 2009 when he left the employ of Newport Group; the loan is also in default for non-payment of interest. The Fund is currently pursuing recovery of principal and interest.

SUBSEQUENT EVENTS

On August 4, 2009, the minority limited partner Gemma delivered to NPH an offer letter pursuant to the Shotgun Buy-Sell provision of the limited partnership agreement governing Gemma. NPH elected to accept the minority limited partner's offer to sell its 20% interest in Gemma. The transaction closed on January 4, 2010, at which time, the Fund paid $4,316 and its interest in Gemma increased to 100%. This transaction will be accounted for using the purchase method.

The unitholders of the Fund approved an Incentive Option Plan (the "Plan") on November 30, 2009. Pursuant to the Plan 7,100,590 units of the Fund have been listed and reserved for issuance upon the exercise of the stock options granted. On January 13, 2010, 7,000,000 options were granted to employees and directors at an exercise price of $0.403 per unit with options vesting in 2010 through to 2013.

On February 19, 2010, the Fund announced a second amendment to the Forbearance Agreement had been entered into with the Lenders (the "Second Amendment"). Under the terms of the Second Amendment, the requirement to repay $35 million by February 28, 2010 has been amended to a requirement to pay $18.5 million. On February 18, 2010 the Fund paid $20 million from cash on hand, which included a $1.5 million rescheduling fee.

2010 OUTLOOK

The main focus for 2010 will be to stabilize the Fund's balance sheet and exit the Forbearance Period with reduced and restructured debt. With a new corporate management team in place there is increased focus on operational efficiencies and strategic growth in certain businesses within the portfolio.

The Financial Services Segment has a mixed outlook. Conditions in the commercial insurance market are expected to remain challenging into 2010. With insurance capacity in ample supply and client closures and consolidations, the competitive landscape is expected to continue. For our financial management companies, improvement will be based on stable or improved financial markets. Morrison Williams believes it will see improvement in AUM, but new business will take longer to develop. NP LP is focusing on client development to organically grow AUM and to attract advisory and insurance services business

For the Marketing Segment the outlook is one of cautious optimism. Armstrong has seen increased spending in its customer base in the last half of the current year and anticipates this trend to continue. IC Group's interactive and loyalty programs are being well received in the market and the outlook for this niche is positive although there may be some margin pressure. Gemma's outlook is optimistic as the increase in inbound customer care programs provides an opportunity to balance the revenue streams and attract new clients. Capital C is expecting a solid year as clients continue to have confidence in the economy and client development efforts show traction. S&E's outlook is mixed. New business is being sought and significant efforts are being made in client development areas.

NPC's expects the strong demand for its specialty wear technology services to continue. The operating divisions focusing on conventional gas and construction and fabrication divisions will be slow to return to prior year levels while oil and gas prices remain low. There is some optimism that with the announcement of four large oil sands projects, there will be increased demand for fabrication work. Quantum Murray's outlook is mixed. The industrial demolition division should see increased activity, but it is unlikely the remediation division will secure another project the magnitude of the 2009 one from the Ontario Ministry of the Environment

In the Other Segment there is a mixed outlook. Peerless will continue to benefit from the two Ministry of Defense contracts well into 2010. Both Titan and Gusgo have suffered from local economic conditions and will not see a return to historic business levels until those conditions improve.

RISK FACTORS

An investment in units of the Fund involves a number of risks. In addition to the other information contained in this MD&A and the Fund's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Any of the matters highlighted in these risk factors could have a material adverse effect on the Fund's results of operations, business prospects or financial condition.

The Fund was in default of covenants on its Senior Credit Agreement and has entered into a Forbearance Agreement with its' Lenders. The agreement requires that the Fund repays all of the indebtedness under the Senior Credit Agreement by July 21, 2010. There can be no guarantee that the Fund will be successful in achieving this, and that the Lenders would not enforce their default-related rights and remedies.

The Fund is in default of its obligations under the Trust Indenture governing the Debentures. As a result of the default all obligations are due. The Fund is in discussion with principal holders of the unsecured subordinated convertible debentures with a view to restructuring these obligations. There can be no guarantee that the Fund will be successful in these restructuring efforts, and that the debenture holders would not pursue remedies available to them.

Our financial results are impacted by the performance of each of our Operating Partnerships and various external factors influencing their operating environments. While stronger performance by one of the Operating Partnerships may compensate for weaker performance by another of the Operating Partnerships, any negative effects on the financial condition or results of operations of an Operating Partnership have a negative effect on the financial condition or results of operations of the Fund.

The Fund's performance will be impacted by its ability to comply with the terms of the Forbearance Agreement.

Please refer to the AIF dated March 8, 2010 for a discussion of Risk Factors particular to the Operating Partnerships and the Fund.

FAILURE TO REALIZE ANTICIPATED BENEFITS OF INVESTMENTS MADE

The Fund and a number of its Operating Partnerships may partner with additional entrepreneurs in the future. The ability to identify new partnership opportunities and to acquire an ownership interest in new partnerships at attractive prices is not guaranteed. Achieving the benefits of future acquisitions will depend in part on successfully consolidating functions and integrating operations, procedures and personnel of all of the partnerships in a timely and efficient manner. The integration of these future acquisitions will require the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the disruption of ongoing business and customer and employee relationships that may adversely affect the Fund or an Operating Partnership's ability to achieve the anticipated benefits of future acquisitions.

BUSINESS VALUATIONS

Historically, we have been able to invest in excellent private businesses. There is no certainty that we will continue to do so. Market conditions, competitive factors, and the availability of suitable investments will have some impact on the prices at which we are able to acquire additional cash flows. The Fund's ability to exit the Forbearance Period and to access capital will be a significant factor in the Fund's ability to make further investments.

CONDITION OF CAPITAL MARKETS

The condition of the capital markets represents two risks to the Fund. If the Fund is successful in exiting its Forbearance Period and restructuring its balance sheet, the Fund may resume its investment program that will require capital. There can be no assurance that this financing will be available when required or available on terms that are favourable to the Fund. This has the potential to hamper our growth.

Second, the condition of the capital markets also impacts the revenues and profits of our asset management businesses. We believe we have strong management teams operating these businesses, each with decades of experience in capital markets.

DEPENDENCE ON KEY PERSONNEL

The success of the Fund and of each of its Operating Partnerships depends on their respective senior management teams and other key employees, including their ability to retain and attract skilled management and employees.

The loss of the services of key personnel could have a material adverse effect on the business, financial condition, results of operations or future prospects of the Fund and its Operating Partnerships. In addition, the growth plans described in this AIF may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. The Fund and its Operating Partnerships may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that the Fund will be able to effectively manage its future growth, and any failure to do so could have a material adverse effect on the Fund's business, financial condition, results of operations and future prospects.

General Economic Factors

The Fund's business and the business of each of our Operating Partnerships is subject to changes in general economic conditions including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. We believe the risk from general economic factors is reduced by having a diverse source of cash flows from businesses that perform differently at different points in the cycle.

Limited Customer Bases

Some of the Operating Partnerships derive a significant portion of their revenues from a limited customer base. If one or more of the significant customers of an Operating Partnership were to cease doing business with the Operating Partnership, or significantly reduced or delayed its purchase of services, the financial condition and results of operations of such Operating Partnership could be materially adversely affected.

Environmental Legislation

Environmental matters are subject to regulation under a variety of federal, provincial, territorial, state and municipal laws relating to health and safety and the environment. Management believes that the Operating Partnerships are in material compliance with applicable environmental legislation, however regulation is subject to change and, accordingly, it is impossible to predict the cost of compliance with new laws or the effects that such changes would have on the Operating Partnerships or their future operations.

Management believes that the risk of non-compliance with environmental regulation is greatest for the Operating Partnerships in the Industrial and Other Segments.

Dependence on the Operating Partnerships

The Fund is a limited purpose trust that is entirely dependent on the operations and assets of the Operating Partnerships. Accordingly, cash distributions to Unitholders are not guaranteed, and are dependent on the ability of the Operating Partnerships to pay distributions indirectly to the Fund. The ability of the Fund to pay distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness (including the Credit Facility). The Fund has entered a Forbearance Agreement with its senior lenders and is disallowed from making distributions to unitholders until the expiry of the Forbearance Period.

Leverage and Restrictive Covenants

The degree to which the Fund is leveraged could have important consequences to Unitholders, including the following: (i) the ability of NPY to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of NPY's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay distributions; (iii) certain of the borrowings under the Credit Facility may be at variable rates of interest, which exposes NPY to the risk of increased interest rates; and (iv) the Fund may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. NPY's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flows, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The ability of the Fund to make distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Fund and NPY (including the Debentures and the Credit Facility). The Credit Facility contains restrictive covenants customary for credit facilities of this nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of NPY to incur additional indebtedness, to pay distributions or make certain other payments, to sell or otherwise dispose of material assets and to make additional acquisitions. In addition, the Credit Facility contains a number of financial covenants that require NPY to meet certain financial ratios and financial tests. A failure to comply with the obligations in the Credit Facility could result in an event of default that, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the assets of NPY would be sufficient to repay in full that indebtedness. The Fund was in breach of certain covenants of its credit facility and entered into a Forbearance Agreement with its senior lenders. During the Forbearance Period the Fund is disallowed from making distributions to its unitholders.

Potential Sales of Additional Units

The Fund may issue additional Units or securities exchangeable for or convertible into Units in the future. The Fund may issue additional Units in order to, among other things, finance the acquisitions of additional CT Notes or CT Units in order to indirectly fund NPY's capital expenditure and other cash requirements. Such additional Units may be issued without the approval of Unitholders. The Unitholders will have no pre-emptive rights in connection with such additional issues. Additional issuance of Units will result in the dilution of the interests of Unitholders.

Distribution of Securities on Redemption or Termination of the Fund

Upon redemption of Units or termination of the Fund, the Trustees may distribute CT Notes and/or CT Units directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for such securities, and none is expected to develop in the future. In addition, the CT Notes will not be freely tradeable and will not be currently listed on any stock exchange. Securities so distributed may not be qualified investments for trusts governed by deferred income plans, depending upon the circumstances at the time.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and that, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets.

The Declaration of Trust further provides that the Trustees shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund, or the Trustees on behalf of the Fund, a contractual provision to the effect that neither the Unitholders, nor the Trustees have any personal liability or obligations in respect thereof. There remains a risk that a Unitholder may be personally liable despite such a provision in the Declaration of Trust or other agreements made by the Fund.

On December 16, 2004, the Trust Beneficiaries' Liability Act, 2004 (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the Securities Act (Ontario), and (ii) the trust is governed by the laws of Ontario. The Fund has been a reporting issuer under the Securities Act (Ontario) since July 28, 2005 and it is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

Undiversified and Illiquid Holdings in the Trust

The Fund's holding of CT Units and CT Notes is undiversified, and such securities are illiquid, as they are not expected to be listed or quoted on any stock exchange or other market.

Income Tax Matters

Although the Fund, the Commercial Trust, NPY, NPH, the Operating Partnerships and their subsidiaries are of the view that all expenses to be claimed by them in the determination of their respective incomes under the Tax Act is reasonable and deductible in accordance with the applicable provisions of the Tax Act, and that the allocation of partnership income for purposes of the Tax Act between the holders of LP Units and the Commercial Trust is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed or such allocation of partnership income. If CRA successfully challenges the deductibility of such expenses or the allocation of such income, NPY's allocation of taxable income to the Commercial Trust, and indirectly the taxable income of the Fund and the Unitholders of the Fund, and taxable income of the Operating Partnerships and their subsidiaries, may change.

Elections have been made under the Tax Act such that the transactions under which NPH acquires its interest in the Operating Partnerships may be effected on a tax-deferred basis. The adjusted cost base of any property transferred to an Operating Partnership pursuant to such agreements may be less than its fair market value, such that a gain may be realized on the future sale of the property.

Further, interest on the CT Notes held by the Fund accrues at the Fund level for income tax purposes whether or not actually paid. The interest rate on CT Notes was reset to 0% effective Mar 1, 2009. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. [If sufficient cash is not available, such distributions will be in the form of Units]. Unitholders will generally be required to include an amount equal to the fair market value of those Units into their taxable income, in circumstances where they do not receive a cash distribution.

The acquisitions of Operating Partnerships involved various structuring events to complete the transactions in a tax effective manner. These transactions involved interpretations of the Tax Act which could, if interpreted differently, result in additional tax liabilities.

RETURN OF CAPITAL

Cash distributions do not represent a "yield" in the traditional sense as they may represent both return of capital and return on investment. The Fund has historically had significant returns of capital prior to October 2008 when it ceased distributions.

SHOT-GUN BUY-SELL RIGHTS

Certain of the limited partnership agreements of the Operating Partnerships contain shot-gun buy-sell provisions. The purpose of the shot-gun buy-sell provisions is to provide the parties with a recognized mechanism for solving any fundamental disputes which may develop. If one of the limited partners of the applicable Operating Partnership, other than NPH, initiates a shot-gun buy-sell, the general partner of NPH will have to decide whether to buy at the offered price, in which case monies may have to be raised, either by drawing on the Credit Facility in the short term or issuing more Units, or to sell at the offered price, in which case NPH will receive the proceeds of sale, and will apply the proceeds in such manner as the general partner of NPH determines at the time, subject to any required approvals from lenders or others. There is no assurance that NPH will decide to buy at the offered price or that NPH will have sufficient funds to buy at the offered price. Any decision of NPH not to buy at the offered price or its inability to buy at the offered price may have a negative impact on the Fund. Any purchase or sale by NPH pursuant to such shot-gun buy-sell provisions will require consent of the lenders under the Credit Facility. No assurance can be given that such consent will be obtained on acceptable terms or at all should NPH decide that it wishes to sell under such shot-gun buy-sell provisions.

UNPREDICTABILITY AND VOLATILITY OF UNIT PRICE

A publicly traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of the Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

NATURE OF UNITS

The Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that act of any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does note carry on or intend to carry on the business of a trust company. In addition, although the Fund qualifies as a "mutual fund trust" as defined in the Tax Act (as of the date hereof), the Fund is not a "mutual fund" as defined by the securities legislation.

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent debt instruments and there is no principal amount owing to Unitholders under the Units. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Each Unit represents an equal, undivided, beneficial interest in the Fund. The Fund's principal assets are CT Units and CT Notes. The price per Unit is a function of the Fund's anticipated distributable cash at any time, which is, in turn dependent on the distributable cash distributed upstream by the Operating Partnerships.

Restrictions on potential growth

The payout by the Operating Partnerships of a high proportion of their operating cash flow will make additional capital and operating expenditures somewhat dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Operating Partnerships and their cash flow.

Limitation on Non-Resident Ownership

The Declaration of Trust imposes various restrictions on Unitholders. Non-resident (as defined in the Declaration of Trust) Unitholders are prohibited from beneficially owning more than 45% of the Units (on a non-diluted and fully diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain Persons (as defined in the Declaration of Trust), including Non-residents, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for the Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner, which adversely affects Fund Unitholders.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time more than 50% of the aggregate fair market value of the Units were held by non-residents and partnerships other than Canadian partnerships, the Fund may lose its mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion, which did not include these proposed changes. The Department of Finance indicated that the implementation of the proposed changes would be suspended pending further consultation with interested parties.

Prior Ranking Indebtedness

The Debentures will be subordinate to all senior indebtedness. The payment of the principal premium (if any) and interest on the Debentures will be subordinated to senior indebtedness of the Fund. The Debentures will also be effectively subordinate to claims of creditors of the Fund's subsidiaries except to the extent the Fund is a creditor of such subsidiaries ranking at least pari passu with such other creditors.

Inability to Fund Purchase of Debentures

The Fund may be required to offer to purchase all outstanding Debentures upon the occurrence of a change of control. However, it is possible that following a change of control, the Fund will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases.

Absence of Covenant Protection

The Trust Indenture does not, and the First Supplemental Indenture will not, restrict the Fund or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. Neither the Trust Indenture nor the First Supplemental Indenture contains any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Fund or any of its subsidiaries.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Fund, after December 2008 (Series 2005 Debentures) and December 2010 (Series 2007 Debentures) and prior to the maturity date at any time and from time to time, at the redemption prices set forth in the Indenture and the First Supplemental Indenture, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Fund is able to refinance at a lower interest rate or it is otherwise in the interest of the Fund to redeem the Debentures.

Conversion Following Certain Transactions

In the case of certain transactions, each Debenture will become convertible into securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future.

Market Value Fluctuation

Prevailing interest rates will affect the market value of the Debentures, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value of the Debentures, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Dilutive Effects on Holders of Units

The Fund may issue Units on the conversion, redemption or repayment of the Debentures. Accordingly, holders of Units may suffer dilution.

Labour

The success of the Fund depends on the ability of the Operating Partnerships to maintain their respective productivity and profitability. The productivity and profitability of the Operating Partnerships may be limited by their ability to employ, train and retain the skilled personnel necessary to meet their respective requirements. None of the Operating Partnerships can be certain that they will be able to maintain the adequate skilled labour force necessary to operate efficiently and to support their growth strategies. As well, none of the Operating Partnerships can be certain that their labour expenses will not increase as a result of shortage in the supply of these skilled personnel. Labour shortages or increased labour costs could impair the ability of an Operating Partnership to maintain or grow its respective Operating Partnership.

Interest Rate Risk

A wholly-owned subsidiary of the Fund entered into a secured credit agreement with an affiliate of Fortress Credit Corp. on December 7, 2006 ("Credit Facility"). This Credit Facility is referenced to the BA and LIBOR rates. Increases in rates could negatively impact our operating results. The Fund was in default of its covenants under this credit facility and is looking to repay all indebtedness by July, 2010.

Proposed Changes to the Income Tax Rules Applicable to Publicly Traded Trusts and Partnerships

On June 22, 2007, amendments to the Tax Act were enacted (the "SIFT Rules"), which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as an eligible dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. The SIFT Rules are applicable to SIFTs beginning with the 2007 taxation year. However, subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 and as amended by the explanatory notes to the November 28, 2008 Notice of Ways and Mean Motion released on December 4, 2008 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006, such as the Fund, provided that there is no "undue expansion" of the Fund in the intervening period.

As a result of amendments to the Tax Act that were enacted on March 12, 2009 (the "SIFT Amendments"), effective October 31, 2006, excluded from the definition of a SIFT is a trust or partnership that is not publicly-traded and the equity (and equity-like debt) of which is wholly-owned by any combination of a SIFT, a real estate investment trust, a taxable Canadian corporation (as each of those terms is defined in the Tax Act), or another trust or partnership that is not publicly-traded and wholly-owned as described above.

The SIFT Rules may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the SIFT Rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

As a result of the Fund suspending distributions in late 2008, the Fund will be subject to income tax on its undistributed taxable income. Consequently, the exemption under EIC 107 for income trusts that the Fund previously relied on, no longer applies. Prior to the decision to suspend distributions, no future taxes were recorded on those differences expected to reverse before 2011.

The SIFT Amendments also introduced a series of rules intended to accommodate the conversion of a SIFT into a taxable Canadian corporation without negative tax consequences to Unitholders.

The Fund has evaluated its alternatives as to the best structure for its unit holders, and has determined that the most appropriate action is conversion to a corporate structure, as this will allow us to address the limits placed on our growth by the federal government with the expansion cap included in the Sift Rules.

REGULATION

The Fund and its Operating Partnerships are subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on the Fund's and its Operating Partnerships' business, financial condition, results of operations and cash flows. Although such expenditures historically have not been material, such laws and regulations are subject to change. Accordingly, it is impossible for the Fund or the Operating Partnerships to predict the cost or impact of such laws and regulations on their respective future operations.

COMPETITION

The businesses in which the Operating Partnerships operate are highly competitive. The Operating Partnerships often compete with companies that are much larger and have greater resources than the Operating Partnerships. There can be no assurance that the Fund and the Operating Partnerships will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows and therefore the Fund's distributions to Unitholders.

POTENTIAL UNKNOWN LIABILITIES

In connection with the prior formation of Operating Partnerships completed by NPY, there may be unknown liabilities assumed by NPY through its interests in the Operating Partnerships for which NPY may not be indemnified by the prior owner. The discovery of any material liabilities could have a material adverse effect on the business, financial condition, results of operations and future prospects of the Fund.

AVAILABILITY OF FUTURE FINANCING

The Fund's principal source of funds is cash generated from its Operating Partnerships. The Fund however may require additional equity or debt financing to meet its financing requirements. There can be no assurance that this financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Fund, in which event the financial condition of the Fund may be materially adversely affected.

POTENTIAL FUTURE DEVELOPMENTS

Management of the Fund, in the ordinary course of business, regularly explores potential strategic opportunities and transactions. The public announcement of any of these or similar strategic opportunities or transactions might have a significant effect on the price of the Fund's securities. The Fund's policy is not to publicly disclose the pursuit of a potential strategic opportunity or transaction unless and until a definitive binding agreement is reached. There can be no assurance that investors who buy or sell securities of the Fund are doing so at a time when the Fund is not pursuing a particular strategic opportunity or transaction, that when announced, would have a significant effect on the price of the Fund's securities.

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

DISCLOSURE CONTROLS AND PROCEDURES

Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the CSA requires CEOs and CFOs to certify that they are responsible for establishing and maintaining the disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

The Fund's management, including its CEO and CFO, have evaluated the effectiveness of the Fund's disclosure controls and procedures as at December 31, 2009 and have concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by the Fund in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Under the supervision of and with the participation of management, including the CEO and CFO, we have evaluated the internal controls over financial reporting as at December 31, 2009 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

Due to the inherent limitations common to all control systems, management acknowledges that disclosure controls and procedures and internal control over financial reporting may not prevent or detect all misstatements. Accordingly, management's evaluation of our disclosure controls and procedures and internal control over financial reporting provide reasonable, not absolute, assurance that misstatements resulting from fraud or error will be detected.

ADDITIONAL INFORMATION

Additional information relating to the Fund including the Fund's AIF is on SEDAR at www.sedar.com or on our website www.income.newportpartners.ca.

DEFINITIONS

"Agent" – means DB Newport LLC, as agent on behalf of the Lenders under the Senior Credit Agreement;

"AIF" – means Annual Information Form;

"Amended Forbearance Agreement" – means the amendments dated November 25, 2009 and February 18, 2009 to the original agreement dated July 21, 2009, between Newport Finance Corp. and the Lenders and Agent thereto;

"Armstrong" – means Armstrong Partnership LP, a limited partnership formed under the laws of Ontario;

"AUM" – means Assets Under Management;

"Bill C-52"– means Bill C-52 Budget Implementation Act, 2007;

"BMI" – means Baird MacGregor Insurance Brokers LP, a limited partnership formed under the laws of Ontario;

"Brompton" – means Brompton Corp., a corporation incorporated under the laws of Ontario;

"Capital C" – means Capital C Communications LP, a limited partnership formed under the laws of Ontario;

"CEO" – means Chief Executive Officer;

"CICA" – means Canadian Institute of Chartered Accountants;

"Convertible Debentures" or "Debentures" – means collectively the two series of unsecured, subordinated, convertible debentures of the Fund, due December 31, 2010 and December 31, 2012, respectively;

"CT" – means Commercial Trust;

"ESR" – means Elliott Special Risks LP, a limited partnership formed under the laws of Ontario;

"Exchange Agreement" – means the agreement dated August 8, 2005 between CT and NPY which provides for the exchange of limited partnership units of NPY into units of the Fund;

"Fund" – means Newport Partners Income Fund;

"GAAP" – means, at any time, Canadian generally accepted accounting principles, including those set out in the Handbook of the CICA, applied on a consistent basis;

"Gemma" – means Gemma Communications LP, a limited partnership formed under the laws of Ontario;

"Gusgo" – means Gusgo Transport LP, a limited partnership formed under the laws of Ontario;

"Hargraft" – means Hargraft Schofield LP, a limited partnership formed under the laws of Ontario;

"IC Group" – means IC Group LP, a limited partnership formed under the laws of Ontario;

"IFRS" – means International Financial Reporting Standards;

"LTM" – means Last Twelve Months;

"Lenders" – means the various persons from time to time acting as lenders under the Senior Credit Agreement;

"MD&A" – means Management's Discussion and Analysis;

"Morrison Williams" – means Morrison Williams Investment Management LP, a limited partnership formed under the laws of Ontario;

"NCIB" – means Normal Course Issuer Bid;

"Newport Partners" or "NP LP" – means Newport Partners LP, a limited partnership formed under the laws of Ontario;

"NPC" – means NPC Integrity Energy Services Limited Partnership, a limited partnership formed under the laws of Alberta;

"NPH" – means Newport Partners Holdings LP, a limited partnership formed under the laws of Ontario;

"NPY" – means Newport Private Yield LP, a limited partnership formed under the laws of Ontario;

"NPY LP Units" – means units of NPY;

"Operating Partnerships" – means businesses in which the Fund holds an ownership interest;

"Peerless" – means Peerless Garments LP, a limited partnership formed under the laws of Ontario;

"Priority Income" – means the annual distribution to which NPF is entitled before its Operating Partners share in the income of the business;

"Quantum Murray" – means Quantum Murray LP (formerly Murray Demolition LP) a limited partnership formed under the laws of Ontario;

"Rlogistics" – means Rlogistics LP, a limited partnership formed under the laws of Ontario;

"S&E" – means Sports and Entertainment Limited Partnership, a limited partnership formed under the laws of Ontario;

"Senior Credit Agreement" – means the Secured Credit Agreement entered into on December 7, 2006, with a syndicate of Lenders;

"Titan" – means Titan Supply LP, a limited partnership formed under the laws of Alberta;

"TSX" – means Toronto Stock Exchange; and

"Units" – means trust units of the Fund.